

TeleCity plc

Directors' report and financial statements
for the year ended 31 December 2005

Registered Number: 3819054



TeleCity plc

Directors' report and financial statements
for the year ended 31 December 2005

Contents

Directors and advisors	1
Directors' report for the year ended 31 December 2005	2
Independent auditors' report to the members of TeleCity plc	3
Profit and loss account for the year ended 31 December 2005	4
Balance sheet as at 31 December 2005	5
Notes to the financial statements for the year ended 31 December 2005	6

TeleCity plc

Directors and advisors

Directors

T A Wadcock

M J Gingell

Secretary

E S Hayman

Auditors

PricewaterhouseCoopers LLP

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Registered Office

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Registered Number

3819054

TeleCity plc

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activities

The principal activity of the company during the year was the holding of investments in group companies.

Review of business and future developments

On 18 July 2005, it was announced that a recommended cash offer of 21 pence per share had been made on behalf of Inhoco 3236 plc to acquire the entire share capital of TeleCity plc and thus take the company into private ownership. This offer was declared unconditional on 5 September 2005 and the company was delisted from the London Stock Exchange on 18 October 2005. Following the delisting of the company, it is not expected to trade in the forthcoming year to 31 December 2006.

Results and dividends

The company's loss for the financial year is £8,826,000 (2004: £6,824,000). The directors do not recommend the payment of a dividend.

Directors and their interests

The directors who held office during the year are given below:

M L Hepher (resigned 7 September 2005)
E Barton (resigned 7 September 2005)
A Legendre (resigned 7 September 2005)
A S Cornish (resigned 7 September 2005)
R J Hudson (resigned 5 December 2005)
M V Joshi (resigned 1 December 2005)
T A Wadcock
M J Gingell (appointed 23 November 2005)

No directors had any interest in the shares of the company or its ultimate parent company at 31 December 2005.

Options to subscribe for the company's shares held by the directors whilst serving as directors are shown below:

	Exercise price	At 1 January 2005	Granted during year	Exercised during year	Lapsed during year	At 31 December 2005
M L Hepher	12.8p	3,125,000	-	(3,125,000)	-	-
R J Hudson	7.8p	1,500,000	3,673,469	-	(5,173,469)	-
M V Joshi	6.7p	500,000	2,806,122	-	(3,306,122)	-
T A Wadcock	12.8p	600,000	2,653,061	-	(3,253,061)	-

The exercise price in respect of shares granted during the year was 19.6p.

The market price at the date of exercise of M L Hepher's options was 20.5p.

The remaining options lapsed as a result of the acquisition of the company by Inhoco 3236 plc. The option holders were paid compensation in respect of these shares which represented the difference between the offer price of 21p per share and the respective exercise prices.

Directors' report for the year ended 31 December 2005 (continued)

Supplier payment policy and practice

The company has no trade creditors during the financial year. Prior to its acquisition by Inhoco 3236 plc, the policy in respect of supplier payment was to agree terms of payment with its suppliers and make payment in accordance with those terms, subject to suppliers' own adherence to the terms and conditions. At 31 December 2004 the Group had 58 days' purchases outstanding in trade creditors.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 year. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

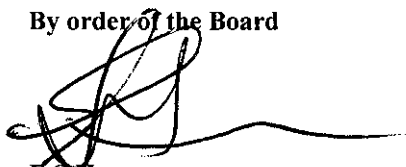
The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the Board



E S Hayman
Secretary

28 June 2006

Independent auditors' report to the members of TeleCity plc

We have audited the financial statements of TeleCity plc for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

28 June 2006

TeleCity plc

Profit and loss account for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Continuing operations			
Administrative expenses		(19,882)	(18,450)
Administrative expenses		(61)	(92)
Exceptional items	2	(19,821)	(18,358)
Operating loss		(19,882)	(18,450)
Interest receivable and similar income	4	9,745	10,291
Income from shares in group companies		1,311	1,335
Loss on ordinary activities before taxation		(8,826)	(6,824)
Tax on loss on ordinary activities	5	-	-
Retained loss for the year	8	(8,826)	(6,824)

The company has no recognised gains or losses relating to the current and prior accounting year other than the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the years stated above and their historical cost equivalents.

TeleCity plc

Balance sheet as at 31 December 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Investments	6	-	10,205
Current assets			
Debtors – amounts owed by group undertakings		23,403	21,623
Net current assets		23,403	21,623
Net assets		23,403	31,828
Capital and reserves			
Called up share capital	7	276	272
Share premium account	8	119,997	119,600
Profit and loss account	8	(96,870)	(88,044)
Equity shareholders' funds	9	23,403	31,828

The financial statements on pages 4 to 10 were approved by the board of directors on 28 June 2006 and were signed on its behalf by:



T A Wadcock
Director

TeleCity plc

Notes to the financial statements for the year ended 31 December 2005

1 Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 1985 and applicable accounting standards.

Employees and auditors

The company had no employees in the year. The auditors' remuneration was borne by another group company.

Deferred taxation

Deferred taxation is provided in full on all material timing differences. Deferred tax assets are only recognised to the extent that their recoverability is regarded as more likely than not.

Foreign currencies

Assets and liabilities denominated in overseas currencies are translated into sterling at rates of exchange prevailing on the balance sheet date. Exchange differences relating to the retranslation of assets and liabilities are taken to the profit and loss account in the year in which they arise.

Cash flow statement and related party disclosure

The company is a wholly-owned subsidiary of Inhoco 3236 plc and is included in the consolidated financial statements of TeleCity Group plc. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1. The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the TeleCity Group plc group or investees of TeleCity Group plc. There are no other related party transactions.

Investments in subsidiaries

Investments in subsidiaries are stated at the book amounts of the net assets of these subsidiary undertakings with provisions below original cost and release of previous provisions being dealt with through the profit and loss account. Movements above original cost being dealt with through revaluation reserve. Dividends received and receivable from subsidiary undertakings are included in the profit and loss account.

2 Exceptional items

The exceptional items are all attributable to continuing operations. The exceptional items are analysed as follows:

	2005 £'000	2004 £'000
Costs incurred in respect of being taken private in the year	(1,171)	-
Net release/ (provision) in respect of amounts owned by group undertakings	(8,445)	7,591
Provision against investment in subsidiaries (Note 6)	(10,205)	(25,949)
	(19,821)	(18,358)

TeleCity plc

Notes to the financial statements for the year ended 31 December 2005

3 Directors' emoluments

	2005 £'000	2004 £'000
Aggregate emoluments	606	430
Pension contributions	11	12
Compensation regarding share scheme	51	-
Compensation for loss of office	500	-
	1,168	442
Highest paid director		
Aggregate emoluments	360	292
Pension contributions	11	12
Compensation regarding share scheme	51	-
Compensation for loss of office	500	-
	922	304

The directors' emoluments are incurred and expensed by the company's subsidiary, TeleCity UK Limited. The above disclosure relates to directors who are not also directors of TeleCity UK Limited. The emoluments of those directors who are also directors of TeleCity UK Limited are disclosed in those accounts. The comparative figures have been adjusted to be consistent with this disclosure.

The compensation for loss of offices relates to termination payments agreed with senior executives of the TeleCity plc group following the proposed acquisition from Redbus Interhouse plc by TeleCity Group plc, the company's ultimate parent company.

Retirement benefits are accruing to all of the current directors under TeleCity UK Limited's money purchase scheme.

4 Interest receivable and similar income

	2005 £'000	2004 £'000
Interest/redemption premium receivable on intercompany convertible loan note	-	10,024
Interest receivable on intercompany loan	9,745	267
	9,745	10,291

TeleCity plc

Notes to the financial statements for the year ended 31 December 2005

5 Tax on loss on ordinary activities

There is no taxation payable and no provision is required for deferred taxation.

	2005 £'000	2004 £'000
Loss before tax	(8,826)	(6,824)
At statutory rate of tax of 30% (2004: 30%)	(2,648)	(2,047)
Expenses not taken into account for tax purposes	5,946	5,507
Income not taxable	(393)	(400)
Group relief claimed not received	(2,905)	(3,060)
Current year charge	-	-

6 Investments

Subsidiary companies

	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 2005 and 31 December 2005	65	121,819	121,884
Provisions			
At 1 January 2005	65	111,614	111,679
Provided in year	-	10,205	10,205
At 31 December 2005	65	121,819	121,884
Net book value			
At 31 December 2005	-	-	-
At 31 December 2004	-	10,205	10,205

The subsidiary undertakings and their activities are set out below:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of shares held %	Principal activity
TeleCity UK Limited	UK	See below	100	Internet infrastructure
TeleCity Investments Limited	UK	Ordinary	100	Non-trading
TeleCity Holdings Limited	UK	Ordinary	100	Non-trading

The shares held in TeleCity UK Limited comprise 100% of the ordinary, 'A' ordinary, 'B' ordinary, 9% redeemable preference, 6% 'B' redeemable preference and 10% 'C' redeemable preference shares.

TeleCity plc

Notes to the financial statements for the year ended 31 December 2005

7 Called up share capital

	Number	£'000
Authorised		
Ordinary shares of 0.1p each		
At 1 January 2005 and 31 December 2005	400,000,000	400
Allotted, called up and fully paid		
Ordinary shares of 0.1p each		
At 1 January 2005	272,093,908	272
Allotted during the year	3,581,278	4
At 31 December 2005	275,675,186	276

The consideration received in respect of the shares allotted amounted to £401,000.

At 31 December 2005, there were no options over ordinary shares granted to Directors and employees (2004: 7,138,744). The movement in share options is analysed as follows:

	Number
At 1 January 2005	7,138,744
Granted during the year	14,782,652
Exercised during the year	(3,581,278)
Lapsed during the year (following acquisition of company)	(18,340,118)
At 31 December 2005	-

8 Share premium account and reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 January 2005	119,600	(88,044)	31,556
Retained loss for the year	-	(8,826)	(8,826)
Premium on shares issued	397	-	397
At 31 December 2005	119,997	(96,870)	23,127

TeleCity plc

Notes to the financial statements for the year ended 31 December 2005

9 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Opening shareholders' funds	31,828	30,718
Retained loss for the year	(8,826)	(6,824)
Shares issued	401	9,000
Expenses paid thereon	-	(1,066)
Closing shareholders' funds	23,403	31,828

10 Immediate and ultimate parent company

The directors regard Inhoco 3236 plc, a company registered in England and Wales, as the immediate parent company at 31 December 2005. Inhoco 3236 plc had a 100% interest in the issued share capital of TeleCity plc at 31 December 2005.

The parent undertaking of the largest and smallest group of undertakings for which group financial statements are prepared is TeleCity Group plc. Copies of these group financial statements may be obtained from the Company Secretary, Telecity Group plc, Bellerive House, 3 Muirfield Crescent, London E14 9SZ.