

Pretel Group Limited

**Directors' report and consolidated
financial statements**

Registered number 4732495

For the year ended 31 December 2004



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Principal activities and business review

The company was incorporated as DMWSC407 Limited on 13 April 2003. It subsequently changed its name to Pretel Group Limited on 20 February 2004.

On 11 March 2004 the company acquired the entire issued share capital of Premier Telesolutions Limited, a company incorporated in the UK, for initial cash consideration of £1,002,468.

Further deferred consideration is payable dependent on the acquired entity's trading patterns.

Dividends

The directors do not recommend the payment of a dividend (2003: *£Nil*).

Directors

The directors who served during the period and subsequently were as follows:

E Delangle	(resigned 16 April 2004)
P Downes	
T Weil	(appointed 2 March 2004)
D Grace	(appointed 2 March 2004)
D Smith	(appointed 16 April 2004)

Directors' interests

At 31 December 2004, T Weil held 48,750 "A" ordinary shares (2003: *Nil*), 6,955 "C" ordinary shares (2003: *Nil*), and 16,078 preference shares (2003: *Nil*) in the company.

At 31 December 2004, D Grace held 13,000 "A" ordinary shares (2003: *Nil*) in the company.

No director is beneficially interested in the share capital of any subsidiary of Pretel Group Limited.

Auditors

In accordance with Section 385 of the Companies Act 1984, a resolution for the appointment of KPMG LLP as auditors of the company, is to be proposed at the forthcoming annual general meeting.

Approved by the board of directors on 31 August 2005 and signed on its behalf by:



T Weil
Director

Bretby Business Park
Ashby Road
Burton on Trent
Staffs
DE15 0YZ

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 group 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 group 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 group and to prevent and detect fraud and other irregularities.



KPMG LLP

2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Pretel Group Limited

We have audited the financial statements on pages 4 to 21.

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 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 group 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 group'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 affairs of the company and the group as at 31 December 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

31 August 2005

Consolidated profit and loss account
for the year ended 31 December 2004

	<i>Note</i>	2004 £	2003 £
Turnover	<i>1</i>	3,488,372	-
Cost of sales		(2,402,402)	-
		<hr/>	<hr/>
Gross profit		1,085,970	-
Administrative expenses		(2,656,287)	-
		<hr/>	<hr/>
Operating loss	<i>2</i>	(1,570,317)	-
Net interest receivable	<i>5</i>	5,613	-
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(1,564,704)	-
Tax on loss on ordinary activities	<i>6</i>	-	-
		<hr/>	<hr/>
Loss on ordinary activities after taxation, being loss for the year		(1,564,704)	-
Additional finance cost of non-equity shares		(186,107)	-
		<hr/>	<hr/>
Retained loss for the financial year	<i>17</i>	(1,750,811)	-
Accumulated loss at beginning of year		-	-
Undeclared dividends on non-equity shares	<i>17</i>	186,107	-
		<hr/>	<hr/>
Accumulated loss at end of year		(1,564,704)	-
		<hr/> <hr/>	<hr/> <hr/>

A statement of movements on reserves is given in note 17.

There are no recognised gains or losses in the year other than the result for the year.

The results set out above for the year ended 31 December 2004 relate to operations acquired in the year (see note 19).

There were no material differences between the results as stated above and the results as stated on an historic cost basis.

Consolidated balance sheet

as at 31 December 2004

	Note	2004		2003	
		£	£	£	£
Fixed assets					
Goodwill	8		1,701,288		-
Tangible assets	9		705,144		-
			<u>2,406,432</u>		<u>-</u>
Current assets					
Stocks	11	55,678		-	
Debtors	12	423,759		1	
Cash at bank and in hand		598,039		-	
		<u>1,077,476</u>		<u>1</u>	
Creditors: amounts falling due within one year	13	<u>(1,539,158)</u>		<u>-</u>	
Net current (liabilities)/assets			<u>(461,682)</u>		<u>1</u>
Total assets less current liabilities			<u>1,944,750</u>		<u>1</u>
Creditors: amounts falling due after more than one year	14		<u>(17,386)</u>		<u>-</u>
Net assets			<u>1,927,364</u>		<u>1</u>
Capital and reserves					
Called up share capital	16		3,197,699		1
Share premium account	17		294,369		-
Profit and loss account	17		(1,564,704)		-
Shareholders' funds			<u>1,927,364</u>		<u>1</u>
Equity shareholders' (deficit)/funds			<u>(1,450,185)</u>		<u>1</u>
Non-equity shareholders' funds			<u>3,377,549</u>		<u>-</u>
			<u>1,927,364</u>		<u>1</u>

These financial statements were approved by the board of directors on 31 August 2005 and were signed on its behalf by:



T Weil
Director

Company balance sheet
as at 31 December 2004

	Note	2004	2003
		£	£
Fixed assets			
Investments	10	1,002,468	-
Current assets			
Debtors	12	2,099,349	1
Cash		220	-
		<hr/>	<hr/>
Net current assets		2,099,569	1
		<hr/>	<hr/>
Net assets		3,102,037	1
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	16	3,197,699	1
Share premium account	17	294,369	-
Profit and loss account	17	(390,031)	-
		<hr/>	<hr/>
Shareholders' funds		3,102,037	1
		<hr/>	<hr/>
Equity shareholders' (deficit)/funds		(275,512)	1
Non-equity shareholders' funds		3,377,549	-
		<hr/>	<hr/>
		3,102,037	1
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 31 August 2005 and were signed on its behalf by:



T Weil
Director

Consolidated cash flow statement

for the year ended 31 December 2004

	Note	2004	2003
		£	£
Net cash outflow from operating activities	22	(1,304,417)	-
Returns on investments and servicing of finance			
Interest element of finance lease rental payments		(5,386)	-
Bank interest		10,999	-
		<hr/>	<hr/>
Net cash inflow from returns on investments and servicing of finance		5,613	-
Capital expenditure on purchase of tangible fixed assets		(285,475)	-
Acquisitions			
Purchase of subsidiary undertaking		(1,002,468)	-
Overdraft balance acquired with subsidiary		(303,768)	-
		<hr/>	<hr/>
Net cash outflow from acquisitions		(1,306,236)	-
Net cash inflow before financing		(2,890,515)	-
Financing			
Issue of preference share capital		3,191,442	-
Issue of ordinary share capital		300,625	-
Capital element of finance lease rental payments		(5,280)	-
		<hr/>	<hr/>
Net cash inflow from financing activities		3,486,787	-
Increase in cash	22	<hr/> 596,272 <hr/>	<hr/> - <hr/>

Reconciliation of movements in consolidated shareholders' funds

for the year ended 31 December 2004

	2004 Non-equity £	2004 Equity £	2004 Total £	2003 Total £
Issue of share capital	3,191,442	300,625	3,492,067	1
Loss for the financial year	-	(1,564,704)	(1,564,704)	-
Undeclared dividend on non-equity shares	186,107	(186,107)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in shareholders' funds/(deficit) for the year	3,377,549	(1,450,186)	1,927,363	1
Shareholders' funds at beginning of year	-	1	1	-
	<hr/>	<hr/>	<hr/>	<hr/>
Shareholders' funds/(deficit) at end of year	3,377,549	(1,450,185)	1,927,364	1
	<hr/>	<hr/>	<hr/>	<hr/>

Reconciliation of movements in company shareholders' funds

for the year ended 31 December 2004

	2004 Non-equity £	2004 Equity £	2004 Total £	2003 Total £
Issue of share capital	3,191,442	300,625	3,492,067	1
Loss for the financial year	-	(390,031)	(390,031)	-
Undeclared dividend on non-equity shares	186,107	(186,107)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in shareholders' funds/(deficit) for the year	3,377,549	(275,513)	3,102,036	1
Shareholders' funds at beginning of the year	-	1	1	-
	<hr/>	<hr/>	<hr/>	<hr/>
Shareholders' funds/(deficit) at end of year	3,377,549	(275,512)	3,102,037	1
	<hr/>	<hr/>	<hr/>	<hr/>

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 financial statements:

Basis of preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable Accounting Standards.

Consolidation

The group financial statements incorporate the results of the company and all of its subsidiary undertakings from the effective date of acquisition.

As permitted by s230 of the Companies Act 1985 no profit and loss account is presented for the parent company.

Goodwill

Goodwill represents the excess of the fair value of consideration given over the fair value of the identifiable net assets acquired. It is written off over the expected useful economic life of the benefits it confers.

Turnover

Turnover represents the amounts receivable for goods and services supplied to customers.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value straight line, over the estimated useful economic life of that asset as follows:

Fixtures and fittings	-	3-8 years
Motor vehicles	-	4 years
Telephone and terminal equipment	-	10 years
Plant and machinery	-	3 years

The cost of tangible fixed assets is their purchase price, together with any incidental costs of acquisition.

Leased assets

Operating lease costs are charged directly to the profit and loss account.

Finance leases

Leasing arrangements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of the equivalent owned asset.

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19: Deferred tax.

Notes (continued)

1 Accounting policies (continued)

Research and development

Research expenditure is written off in the period in which it is incurred. Development expenditure is capitalised and written off over its expected useful life.

Pensions

Contributions to defined contribution schemes are charged to the profit and loss account as incurred.

2 Operating loss

	2004 £	2003 £
<i>Operating loss is stated</i>		
<i>after charging</i>		
Amortisation of goodwill	71,443	-
Depreciation of tangible fixed assets:		
Owned	109,950	-
Leased	9,461	-
Other operating leases:		
Vehicles	29,073	-
Plant and equipment	5,989	-
Audit fees:		
Group	28,000	-
Parent company	5,989	-
	<hr/>	<hr/>

Fees paid to the auditor and its associates during the year to 31 December 2004 for group non-audit services amounted to £88,000 (2003: £8,000).

3 Directors' remuneration

Aggregate directors' remuneration was as follows:

	2004 £	2003 £
Emoluments for services as directors	367,846	-
Contributions to money purchase schemes	21,667	-
	<hr/>	<hr/>
	389,513	-
	<hr/>	<hr/>

Retirement benefits are accruing to 2 (2003: Nil) directors under money purchase pension schemes.

The aggregate emoluments of the highest paid director amounted to £283,046 (2003: £Nil). Payments of £15,000 (2003: £Nil) were made to money purchase pension schemes in respect of this director.

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2004	2003
Administrative	4	-
Management	1	-
Engineering	63	-
Customer service	9	-
	<hr/>	<hr/>
	77	-
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	1,516,521	-
Social security costs	141,982	-
Other pension costs	47,634	-
	<hr/>	<hr/>
	1,706,137	-
	<hr/>	<hr/>

5 Net interest receivable

	2004	2003
	£	£
Interest receivable:		
Bank interest receivable	13,966	-
Interest payable:		
Bank interest payable	(2,967)	-
Finance charges payable in respect of finance leases and hire purchase contracts	(5,386)	-
	<hr/>	<hr/>
	(8,353)	-
	<hr/>	<hr/>
Net interest receivable	5,613	-
	<hr/>	<hr/>

Notes (continued)

6 Tax on loss on ordinary activities

Charge for the year

	2004 £	2003 £
<i>Current taxation</i>		
UK corporation tax on losses of the year at 30%	-	-
<i>Total current tax</i>		
Deferred taxation	-	-
	<hr/>	<hr/>
Tax on loss on ordinary activities	-	-
	<hr/>	<hr/>

Factors affecting the charge for the year

The tax assessed for the year is different from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004 £	2003 £
Loss on ordinary activities before taxation	(1,564,704)	-
	<hr/>	<hr/>
Tax on loss on ordinary activities at 30% (2003: 30%)	(469,411)	-
<i>Effects of:</i>		
Expenses not deductible for tax purposes	109,029	-
Losses carried forward	25,224	-
Capital allowances in excess of depreciation	2,561	-
Other short term timing differences	332,597	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

Factors affecting future tax charges

The group has an unprovided deferred taxation asset which if utilised would reduce the tax charge in future periods (see note 15).

7 Loss for the financial year

The loss after tax for the company is £390,031 (2003: £Nil). An undeclared dividend in respect of preference shares of £186,107 (2003: £Nil) has accrued to the preference shareholders in the year, giving a retained loss in the year of £576,138 (2003: £Nil) (see note 17).

Notes (continued)

8 Goodwill

Group

£

Cost

At beginning of year

-

Arising on acquisitions during the year (see note 19)

1,772,730

At end of year

1,772,730

Amortisation

At beginning of year

-

Charged in year

71,442

At end of year

71,442

Net book value

At 31 December 2004

1,701,288

At 31 December 2003

-

Goodwill arising on the acquisition of subsidiary undertakings is being amortised over its useful economic life of twenty years.

9 Tangible fixed assets

Group

	Plant and machinery	Fixtures and fittings	Motor vehicles	Telephone and terminal equipment	Total
	£	£	£	£	£
Cost					
At beginning of year	-	-	-	-	-
Acquisition of subsidiary undertaking	31,953	11,919	9,566	485,642	539,080
Additions	-	77,980	-	207,495	285,475
At end of year	31,953	89,899	9,566	693,137	824,555
Depreciation					
At beginning of year	-	-	-	-	-
Charged in year	14,261	12,065	4,838	88,247	119,411
At end of year	14,261	12,065	4,838	88,247	119,411
Net book value					
At 31 December 2004	17,692	77,834	4,728	604,890	705,144
At 31 December 2003	-	-	-	-	-

Finance lease agreements

Included within the net book value of £705,144 (2003: £Nil) is £30,497 (2003: £Nil) relating to assets held under finance lease agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £9,461 (2003: £Nil).

Notes (continued)

10 Fixed asset investments

	Shares in group undertakings £
Company	
<i>Cost</i>	
Additions	1,002,468
<i>Net book value</i>	
At 31 December 2004	1,002,468
At 31 December 2003	-

The company directly holds 100% of the allotted ordinary share capital of the following company which is registered in England and Wales:

Company	Activity
Premier Telesolutions Limited	Holding Company

The company indirectly holds 100% of the allotted ordinary share capital of the following companies:

Company	Activity
Premier Managed Payphones Limited	Operation of payphone business
Premier Managed Services Limited	Management of hospital bedside terminal business
Premier Entertainment Limited	Operation of a hospital bedside terminal business

11 Stocks

Group	2004 £	2003 £
Payphones and payphone spares	55,678	-

12 Debtors

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Trade debtors	358,746	-	-	-
Amounts owed by subsidiary undertakings	-	2,099,349	-	-
Other debtors	35	-	1	1
Prepayments and accrued income	64,978	-	-	-
	423,759	2,099,349	1	1

Notes (continued)

13 Creditors: amounts falling due within one year

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Bank overdrafts	1,767	-	-	-
Other loans	18,964	-	-	-
Trade creditors	840,179	-	-	-
Other creditors	73,709	-	-	-
Other taxation and social security	32,497	-	-	-
Accruals and deferred income	572,042	-	-	-
	<u>1,539,158</u>	<u>-</u>	<u>-</u>	<u>-</u>

14 Creditors: amounts falling due after more than one year

Group	2004 £	2003 £
Other loans	<u>17,386</u>	<u>-</u>

Other loans are repayable within two years.

15 Deferred taxation

At 31 December 2004, the group has unrecognised deferred taxation assets in respect of:

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Accelerated capital allowances	126,363	-	-	-
Other timing differences	8,362	-	-	-
Unutilised losses	586,468	-	-	-
	<u>721,193</u>	<u>-</u>	<u>-</u>	<u>-</u>

The net potential deferred taxation assets noted above have not been recognised in the financial statements as, in the opinion of the directors, there is not sufficient evidence that it is more likely than not that suitable taxable profits will be generated to offset these amounts in those parts of the group to which they relate.

Notes (continued)

16 Called up share capital

	2004 £	2003 £
Authorised:		
<i>Equity:</i>		
97,500 "A" ordinary shares of £0.01 each	975	975
545,545 "B" ordinary shares of £0.01 each	5,455	5,455
6,955 "C" ordinary shares of £0.01 each	70	70
<i>Non-equity:</i>		
12,000,000 preference shares of £1 each	12,000,000	12,000,000
	<u>12,006,500</u>	<u>12,006,500</u>
Allotted, called up and fully paid:		
<i>Equity:</i>		
73,225 "A" ordinary shares of 1p each	732	1
545,545 "B" ordinary shares of 1p each	5,455	-
6,955 "C" ordinary shares of 1p each	70	-
<i>Non-equity:</i>		
3,191,442 preference shares of £1 each	3,191,442	-
	<u>3,197,699</u>	<u>1</u>

A summary of the movements in ordinary share capital during the year is as follows:

	Number of shares	Nominal value £	Consideration received £
Issued in the year:			
Ordinary "A" shares	73,125	731	73,125
Ordinary "B" shares	545,545	5,455	224,636
Ordinary "C" shares	6,955	70	2,864
Preference shares	3,191,442	3,191,442	3,191,442
	<u>3,817,067</u>	<u>3,197,698</u>	<u>3,492,067</u>
At 31 December 2004			

	"A" ordinary shares		"B" ordinary shares		"C" ordinary shares	
	Number	Value £	Number	Value £	Number	Value £
Original allotment	100	1	-	-	-	-
Allotment of additional shares 31 March 2004	61,750	618	545,545	5,455	6,955	70
Allotment of additional shares 27 July 2004	11,375	113	-	-	-	-
	<u>73,225</u>	<u>732</u>	<u>545,545</u>	<u>5,455</u>	<u>6,955</u>	<u>70</u>

Notes (continued)

16 Called up share capital (continued)

	Preference shares	
	Number	Value £
Original allotment	-	-
Allotment of additional shares 31 March 2004	2,291,442	2,291,442
Allotment of additional shares 30 September 2004	500,000	500,000
Allotment of additional shares 16 December 2004	400,000	400,000
	<hr/>	<hr/>
	3,191,442	3,191,442
	<hr/>	<hr/>

Non-equity shares

The principal rights attached to the £1 preference shares are as follows:

Rights to dividends

The holders of the preference shares are entitled to an annual dividend at a rate of 10% per annum to 31 December 2008, 25% per annum from 1 January 2009 to 31 December 2009 and 50% per annum thereafter to be paid on the date of redemption of the shares.

The dividends are cumulative and are payable in priority to the payment of any dividend on the ordinary shares.

Voting rights

The holders of the preference shares are entitled to receive notice of and to attend and speak, but not vote at, all general meetings of the company. An exception to this is that the consent of holders of not less than 75% of the nominal value of the preference shares must be obtained in order to:

- pass a resolution reducing the capital of the company; or
- pass a resolution for the winding up of the company; or
- pass a resolution to make a distribution out of capital or capital reserves or utilisation of the share premium account; or
- pass a resolution to vary the rights attaching to the preference shares or to issue further shares to rank in priority or *pari passu* with the preference shares.

Redemption

The company may, at any time, having given not less than 7 days and not more than 30 days notice, redeem the preference shares at the subscription price in tranches of not less than 500,000 preference shares. On redemption, any arrears of dividend will be paid.

Equity shares

Except as specifically stated below, the three separate classes of shares shall rank *pari passu* in all respects. Per Financial Reporting Standard No 4 "*Capital instruments*", equity shares that have one vote per share and have no preferential dividend rights, no redemption rights and an unlimited right to share in a surplus remaining on wind up do not require additional disclosure. Accordingly, the details below have been reported by exception.

Dividends

Subject to the payment of all unpaid preference dividends, any profits that the directors determine to distribute amongst the equity shareholders shall be made *pro rata* in relation to the paid up amount on each share.

Notes (continued)

16 Called up share capital (continued)

Equity shares (continued)

Rights to vote at meetings of the company

Every holder of "A", "B" and "C" ordinary shares shall have one vote on a show of hands at every meeting of the company at which he is present or has duly elected a representative.

The holders of "C" ordinary shares have undertaken to exercise all voting rights as directed in writing by the Investor Director, or if there is no Investor Director, by shareholders holding more than 50% of the equity shares.

The above summary of rights and principle features of each class of share cannot adequately provide the information necessary to understand the commercial effect of the instruments. Full details are available in the articles of association of Pretel Group Limited, which are available to the public and may be obtained from The Registrar at Companies House.

Winding up

On winding up or other return of capital, assets available for distribution will be applied in the following order:

- return of amounts paid up in respect of the preference shares, including any premium paid;
- payment of any dividend arrears in respect of the preference shares;
- payment of any dividend arrears in respect of the ordinary shares;
- return of amounts paid up in respect of the ordinary shares, including any premium paid;
- distribution of the balance pari passu amongst the holders of the ordinary shares.

17 Reserves

	Share premium account £	Profit and loss account £
Group		
At beginning of year	-	-
Retained loss for year	-	(1,750,811)
Undeclared non-equity dividends	-	186,107
Premium on shares issued	294,369	-
	<hr/>	<hr/>
At end of year	294,369	(1,564,704)
	<hr/>	<hr/>
	Share premium account £	Profit and loss account £
Company		
At beginning of year	-	-
Retained loss for year	-	(576,138)
Undeclared non-equity dividends	-	186,107
Premium on shares issued	294,369	-
	<hr/>	<hr/>
At end of year	294,369	(390,031)
	<hr/>	<hr/>

Notes (continued)

18 Pensions

UK defined contribution scheme

The group makes contributions to the money purchase pension schemes of 4 directors of the company and certain subsidiary undertakings as described in note 1. Contributions paid to the scheme in the year amounted to £47,634 (2003: £Nil).

At the end of the year there were contributions outstanding of £6,842 (2003: £Nil).

19 Acquisitions

On 11 March 2004, the company acquired the entire issued share capital of Premier Telesolutions Limited, a group which provides bedside terminal technology to hospitals and a managed payphone operation to the healthcare sector. The consolidated loss on ordinary activities after taxation of the group for the year ended 31 December 2003 was £1,131,157. The acquired group made a consolidated loss of £1,174,673 in the period from acquisition on 11 March 2004 to 31 December 2004.

The acquisition is being accounted for under the acquisition method of accounting.

A summary of the assets and liabilities acquired in this acquisition (which also represents their fair value) is set out below:

	Book value and fair value £
Tangible fixed assets	539,080
Stocks	89,496
Debtors	423,228
Creditors	(1,518,298)
Debt	(303,768)
	<hr/>
	(770,262)
Provisional goodwill (see note 8)	1,772,730
	<hr/>
Consideration	1,002,468
	<hr/>
Satisfied by:	
Cash	1,002,468
	<hr/>

Notes (continued)

20 Commitments

Group

Annual commitments under operating leases in respect of vehicles, plant and equipment were:

	2004 £	2003 £
Expiring:		
Within one year	429	-
Within two to five years	29,643	-
	<u>30,072</u>	<u>-</u>

21 Related party disclosures

The company and its subsidiaries have taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Pretel Group Limited group.

22 Notes to the consolidated cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2004 £	2003 £
Operating loss	(1,570,317)	-
Goodwill amortisation	71,442	-
Depreciation	119,411	-
Decrease in stocks	33,818	-
Increase in debtors	(530)	-
Increase in creditors	41,759	-
	<u>(1,304,417)</u>	<u>-</u>

Analysis of changes in net funds

	2003 £	Cash flow £	Acquisitions (excluding cash and overdrafts) £	2004 £
Cash at bank and in hand	-	598,039	-	598,039
Bank overdrafts	-	(1,767)	-	(1,767)
	<u>-</u>	<u>596,272</u>	<u>-</u>	<u>596,272</u>
Other loans falling due within one year	-	-	(18,964)	(18,964)
Other loans falling due in more than one year	-	-	(17,386)	(17,386)
Finance leases due within one year	-	5,280	(5,280)	-
	<u>-</u>	<u>5,280</u>	<u>(41,630)</u>	<u>(36,350)</u>
	<u>-</u>	<u>601,552</u>	<u>(41,630)</u>	<u>559,922</u>

Notes *(continued)*

22 Notes to the consolidated cash flow statement *(continued)*

Reconciliation of net cash flow to movement in net funds

	2004 £	2003 £
Increase in cash in the year	596,272	-
Cash inflow from increase in financing	5,280	-
	<hr/>	<hr/>
Change in net funds resulting from cash flows	601,552	-
Other loans acquired with subsidiary undertaking	(41,630)	-
	<hr/>	<hr/>
Movement in net funds in the year	559,922	-
Opening net funds	-	-
	<hr/>	<hr/>
Closing net funds	559,922	-
	<hr/>	<hr/>