Pretel Group Limited

Directors' report and consolidated financial statements

Registered number 4732495

For the year ended 31 December 2006

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the group is the management and operation of hospital bedside terminal business and managed payphone operations in the healthcare sector

Business review

The group is one of three remaining licensees providing Bedside Entertainment Systems to acute NHS hospitals In addition the group provides payphones and has developed new bedside phone units and new bedside phone and tv units called Easitalk and Easiview respectively

Business Review

The group s loss before interest and taxation is £1 674 999 *(2005 £3 736 848)*

By the end of the year the group had installed 1 200 Easitalk units *(2005 300)* with further roll out of both Easitalk and Easiview expected in 2007 The majority of the group s business to date is derived from the Patient Power licensed bedside terminal where the group has 5,400 units *(2005 4,400 units)* installed in England

The group uses a number of KPI s covering its business performance key ones being

Revenue Revenue per terminal per day broken down into type of revenue stream Total revenues per terminal per day have continued to develop during the year as they attain maturity

Costs Costs per terminal per day chiefly covering site staff costs maintenance costs and direct costs of sales The group has taken active steps to reduce the costs of staff on sites during the year and to tightly control other costs

Customers Customer satisfaction surveys which are installed on its bedside terminals are monitored by management Completed surveys consistently show that patients find the systems beneficial to their stay in hospital

Principal Risks and Uncertainties

The group s activities are largely supplying services to Patients within NHS hospitals, their friends and family s The group is therefore affected by government policy in respect of healthcare provision and funding

The group was party to an investigation by Ofcom into the charging practices for calls made to patients at their bedsides Following the conclusion of this investigation the group as taken an active part in and supported the NHS in a full review of the services offered under the Patient Power Programme

Outlook

It is expected that the majority of the growth of the group in the near future will come from installation of the smaller Easitalk and Easiview units

Dividends

The directors do not recommend the payment of a dividend *(2005 £Nil)*

Directors

The directors who served during the year and subsequently were as follows

P Downes	(resigned 14 November 2006)
T Weil	
D Grace	
D Smith	(resigned 14 November 2006)
C Robinson	(appointed 14 November 2006)

Directors' report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that so far as they are each aware there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with Section 385 of the Companies Act 1984 a resolution for the re-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 15 October 2007 and signed on its behalf by

T Weil
Director

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

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 LLP

2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Independent auditors' report to the members of Pretel Group Limited

We have audited the financial statements of Pretel Group Limited for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets the consolidated cash flow statement the consolidated and company reconciliations of movements in equity shareholders deficit and the related notes These financial statements have been prepared under the accounting policies set out therein

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 responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 other transactions is not disclosed

We read the Directors Report and consider the implications for our report if we become aware of any apparent misstatements within it

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 judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company s circumstances consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent auditors' report to the members of Pretel Group Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the state of the group s and parent company s affairs as at 31 December 2006 and of its loss for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and
- the information given in the Directors Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

15 October 2007

Consolidated profit and loss account
for the year ended 31 December 2006

	Note	2006 £	2005 £
Turnover	*1*	**5,677,936**	4 168 033
Cost of sales		**(1,626,669)**	(2 327 180)
Gross profit		**4,051,267**	1 840 853
Administrative expenses		**(5,726,266)**	(5 577 701)
Operating loss	*2*	**(1,674,999)**	(3 736 848)
Net interest payable	*5*	**(1,979,141)**	(980 231)
Loss on ordinary activities before taxation		**(3,654,140)**	(4 717 079)
Tax on loss on ordinary activities	*6*	**(303)**	-
Loss for the financial year	*18*	**(3,654,443)**	(4 717 079)

A statement of movements on reserves is given in note 18

The results set out above for the current and preceding year relate to continuing operations

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

There were no recognised gains or losses in respect of the year or prior year other than the results stated above

Consolidated balance sheet
as at 31 December 2006

	Note	2006		2005	
		£	£	£	£
Fixed assets					
Goodwill	*8*		**1,524,016**		1 612 653
Tangible assets	*9*		**9,506,320**		9 161 210
			11,030,336		10 773 863
Current assets					
Stocks	*11*	**83,993**		37 003	
Debtors	*12*	**722,322**		2 566 972	
Cash at bank and in hand		**582,669**		3 794 496	
		1,388,984		6 398 471	
Creditors amounts falling due within one year	*13*	**(2,820,387)**		(5 362 138)	
Net current (liabilities)/assets			**(1,431,403)**		1 036 333
Total assets less current liabilities			**9,598,933**		11 810 196
Creditors amounts falling due after more than one year	*14*		**(19,406,798)**		(17 978 242)
Net liabilities			**(9,807,865)**		(6 168 046)
Capital and reserves					
Called up share capital	*17*		**6,403**		6 256
Share premium account	*18*		**308,847**		294 370
Profit and loss account	*18*		**(10,123,115)**		(6 468 672)
Equity shareholders' deficit			**(9,807,865)**		(6 168 046)

These financial statements were approved by the board of directors on 15 October 2007 and were signed on its behalf by

T Weil
Director

Company balance sheet
as at 31 December 2006

	Note	2006 £	£	2005 £	£
Fixed assets					
Investments	*10*		**1,002,468**		1 002 468
Current assets					
Debtors	*12*	**9,558,704**		10 699 323	
Cash		**98**		128	
		9,558,802		10 699 451	
Creditors amounts falling due within one year		-		(613 342)	
Net current assets			**9,558,802**		10 086 109
Total assets less current liabilities			**10,561,270**		11 088 577
Creditors amounts falling due after more than one year			**(12,587,644)**		(12 193 229)
Net liabilities			**(2,026,374)**		(1 104 652)
Capital and reserves					
Called up share capital	*17*		**6,403**		6 256
Share premium account	*18*		**308,847**		294 370
Profit and loss account	*18*		**(2,341,624)**		(1 405 278)
Equity shareholders' deficit			**(2,026,374)**		(1 104 652)

These financial statements were approved by the board of directors on 15 October 2007 and were signed on its behalf by

T Weil
Director

Consolidated cash flow statement
for the year ended 31 December 2006

	Note	2006 £	£	2005 £	£
Net cash outflow from operating activities	22		(96,578)		(1 463 474)
Returns on investments and servicing of finance					
Interest element of finance lease rental payments		(1,199,808)		(200 339)	
Bank interest		80,628		48 348	
Net cash outflow from returns on investments and servicing of finance			(1,119,180)		(151 991)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(1,701,738)		(9 404 985)	
Proceeds from the sale of tangible fixed assets		-		2 100	
Net cash outflow from capital expenditure and financial investment			(1,701,738)		(9 402 885)
Net cash outflow before financing			(2,917,496)		(11 018 350)
Financing					
Issue of preference share capital		1,175,000		-	
Drawdown of shareholders loans		-		8 600 000	
Repayment of shareholder loans		(2,500,000)		-	
Issue of ordinary share capital		9,749		-	
Drawdown of new finance leases		1,442,035		5 604 793	
Capital element of finance lease rental payments		(377,406)		-	
Repayment of other loans		(17,386)		(18 964)	
Net cash (outflow)/inflow from financing activities			(268,008)		14 185 829
(Decrease)/increase in cash	22		(3,185,504)		3 167 479

Reconciliation of movements in equity shareholders' deficit
for the year ended 31 December 2006

	Group		Company	
	2006	2005	**2006**	2005
	£	£	**£**	£
Issue of equity share capital	**14,624**	-	**14,624**	-
Loss for the financial year	**(3,654,443)**	(4 717 079)	**(936,346)**	(828 358)
Net increase in shareholders' deficit for the year	**(3,639,819)**	(4 717 079)	**(921,722)**	(828 358)
Shareholders deficit at beginning of year	**(6,168,046)**	(1 450 967)	**(1,104,652)**	(276 294)
Shareholders' deficit at end of year	**(9,807,865)**	(6 168 046)	**(2,026,374)**	(1 104 652)

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

The company has adopted FRS 20 Share based payment in the year This had had no impact on the financial statements in the current or preceding year

Basis of preparation

The financial statements have been prepared under the historical 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(4) 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

Fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment

Depreciation

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

Fixtures and fittings	-	3-8 years
Motor vehicles	-	4 years
Terminal equipment	-	15 years
Plant and machinery	-	3-5 years
Telephone equipment	-	10 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

Notes *(continued)*

1 Accounting policies *(continued)*

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

Research and development

Research and development expenditure is written off in the period in which it is incurred

Pensions

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

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (ie forming part of the shareholders' funds) only to the extent that they meet the following two conditions

a) They include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company and

b) where the instrument will or may be settled in the company s own equity instruments it is either a non-derivative that includes no obligation to deliver a variable number of the company s own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its equity instruments

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges

2 Operating loss

	2006	2005
	£	£
Operating loss is stated		
after charging		
Amortisation of goodwill	**88,637**	88 635
Depreciation of tangible fixed assets		
Owned	**213,678**	109 544
Leased	**1,142,950**	692 028
Impairment of tangible fixed assets	**-**	145 247
Other operating leases		
Vehicles	**14,347**	29 643
Plant and equipment	**-**	429
Fees payable to the company s auditors		
Audit of these financial statements	**8,550**	5 000
Audit of the company s subsidiaries pursuant to legislation	**32,450**	31 300
Taxation advisory services	**16,500**	15 500

Notes *(continued)*

3 Directors' remuneration

Aggregate directors remuneration was as follows

	2006	2005
	£	£
Emoluments for services as directors	**304,885**	253 375
Contributions to money purchase schemes	**23,000**	23 000
	327,885	276 375

Retirement benefits are accruing to 2 *(2005 2)* directors under money purchase pension schemes

The aggregate emoluments of the highest paid director amounted to £188 689 *(2005 £154,128)* Payments of £15 000 *(2005 £15 000)* were made to money purchase pension schemes in respect of this director

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	
	2006	2005
Administrative	**27**	10
Management	**15**	17
Engineering and customer service	**104**	52
	146	79

The aggregate payroll costs of these persons were as follows

	£	£
Wages and salaries	**2,262,450**	2 178 011
Social security costs	**212,012**	198 361
Other pension costs	**46 865**	34 477
	2,521,327	2 410 849

Notes *(continued)*

5 Net interest payable

	2006	2005
	£	£
Interest receivable		
Bank interest receivable	**80,628**	48 348
Interest payable		
Finance charges payable in respect of finance leases and hire purchase contracts	**(1,123,453)**	(200 339)
Finance charge payable on preference shares	**(474,795)**	(229 144)
Interest payable on shareholder loans	**(461,521)**	(599 096)
	(2,059,769)	(1 028 579)
Net interest payable	**(1,979,141)**	(980 231)

6 Tax on loss on ordinary activities

Charge for the year

	2006	2005
	£	£
UK Corporation tax		
Current taxation	**303**	-
Deferred taxation	-	-
Tax on loss on ordinary activities	**303**	-

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 of 30% *(2005 30%)* The differences are explained below

	2006	2005
	£	£
Loss on ordinary activities before taxation	**(3,654,140)**	(4 717 079)
Tax on loss on ordinary activities at 30% (*2005 30%*)	**(1,096,242)**	(1 415 124)
Effects of		
Expenses not deductible for tax purposes	**335,631**	485 787
Losses carried forward	**855 141**	977 359
Capital allowances in excess of depreciation	**(58,845)**	(49 524)
Other short term timing differences	**3,950**	1 502
Profits taxed at less than 30%	**(332)**	-
Release of non-taxable provision	**(39,000)**	
Total current tax charge (see above)	**303**	-

Notes *(continued)*

6 Tax on loss on ordinary activities *(continued)*

Factors affecting future tax charges

The group has an unrecognised deferred taxation asset which if utilised would reduce the tax charge in future periods (see note 16)

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008 The deferred tax liability has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be charged at 30% any timing differences which exist at 1 April 2008 will reverse at 28% and because of the uncertainty of when the deferred tax liability will reverse it is not possible to calculate the full financial impact of this change

7 Loss for the financial year

The loss after tax for the company is £936 346 *(2005 £828 358)*

8 Goodwill

Group

	£
Cost	
At beginning and end of year	1 772 730
Amortisation	
At beginning of year	160 077
Charged in year	88 637
At end of year	248 714
Net book value	
At 31 December 2006	**1,524,016**
At 31 December 2005	1 612 653

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

Notes *(continued)*

9 Tangible fixed assets

Group

	Plant and machinery	Fixtures and fittings	Motor vehicles	Telephone equipment	Terminal equipment	Total
	£	£	£	£	£	£
Cost						
At beginning of year	5 259 107	2 176 987	11 966	241 082	2 537 086	10 226 228
Additions	1 050 593	54 481	-	-	596 664	1 701 738
At end of year	6 309 700	2 231 468	11 966	241 082	3 133 750	11 927 966
Depreciation						
At beginning of year	475 956	160 633	10 065	105 159	313 205	1 065 018
Charged in year	382 885	336 847	600	54 509	581 787	1 356 628
At end of year	858 841	497 480	10 665	159 668	894 992	2 421 646
Net book value						
At 31 December 2006	**5,450,859**	**1,733,988**	**1,301**	**81,414**	**2,238,758**	**9,506,320**
At 31 December 2005	4 783 151	2 016 354	1 901	135 923	2 223 881	9 161 210

Finance lease agreements

Included within the net book value of £9 506 320 *(2005 £9 161 210)* is £8 965 658 *(2005 £8 590 656)* 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 £1 142 950 *(2005 692 028)*

Notes *(continued)*

10 Fixed asset investments

	Shares in group undertakings £
Company	
Cost and net book value	
At beginning and end of year	1,002,468

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 Easitalk and Easiview business
Premier Managed Services Limited	Management and operation of bedside terminal business
Premier Entertainment Limited	Management of a hospital bedside terminal business
Premier Telecom Contracts Limited	Operation of a hospital bedside terminal business

11 Stocks

Group

	2006 £	2005 £
Payphones and payphone spares	83,993	37 003

12 Debtors

	2006 Group £	Company £	2005 Group £	Company £
Trade debtors	530,400	-	2 189 144	-
Unpaid share capital	4,875	4,875	-	-
Amounts owed by subsidiary undertakings	-	9,553,829	-	10 699 323
Other debtors	-	-	10 650	-
Prepayments and accrued income	187,047	-	126 542	-
VAT recoverable	-	-	240 636	-
	722 322	9,558,704	2 566 972	10 699 323

Notes *(continued)*

13 Creditors amounts falling due within one year

	2006 Group £	Company £	2005 Group £	Company £
Bank overdrafts	4,422	-	30 745	-
Other loans	-	-	17 386	-
Obligations arising under finance leases	778,440	-	747 952	-
Trade creditors	1,044,774	-	1 848 972	-
Other creditors	6,132	-	6 132	-
Corporation tax	303	-	-	-
Other taxation and social security	189,110	-	1 055 027	-
Accruals and deferred income	797,206	-	1 655 924	613 342
	2,820,387	-	5 362 138	613 342

14 Creditors amounts falling due after more than one year

	2006 Group £	Company £	2005 Group £	Company £
Preference shares (see note 17)	10,636,198	10,636,198	2 291 442	2 291 442
Shareholder loans	-	-	9 500 000	9 500 000
Obligations arising under finance leases	6,819,154	-	5 785 013	-
Accruals	1,951,446	1,951,446	401 787	401 787
	19,406,798	12,587,644	17 978 242	12 193 229

Under the terms and conditions of the finance lease if the group default on payments due under the agreement the lessor has the right to claim ownership of the entire issued share capital of Premier Telecom Contracts Limited the group undertaking which holds the lease and all concession agreements with NHS Trusts

Interest on shareholder loans is payable at 10% per annum Of the balance of £9 500 000 outstanding at 31 December 2005 £2 500 000 was repaid on 17 May 2006 and the remaining £7 000 000 was converted into preference shares on 6 September 2006 Outstanding interest on the balance repaid of £169 756 was also converted into new preference shares on 6 September 2006

15 Obligations under finance leases

Group

Obligations arising under finance leases are repayable as follows

	2006 £	2005 £
Amounts falling due		
In less than one year	778 440	747 952
In two to five years	3,113,760	1 495 904
In more than five years	3,705 394	4 289 109
	7,597,594	6 532 965

Notes *(continued)*

16 Deferred taxation

At 31 December 2006 the group has unrecognised deferred taxation assets in respect of

	2006 Group £	Company £	2005 Group £	Company £
Accelerated capital allowances	**107,531**	**-**	155 589	-
Other timing differences	**10,107**	**-**	6 157	-
Unutilised losses	**1,741,057**	**44**	902 936	35
Deferred tax asset	**1,858,695**	**44**	1 064 682	35

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

17 Called up share capital

	2006 £	2005 £
Authorised		
Equity		
97 500 A ordinary shares of 1p each	**975**	975
545 545 B ordinary shares of 1p each	**5,455**	5 455
6 955 C ordinary shares of 1p each	**70**	70
Non-equity		
12 000 000 preference shares of £1 each	**12,000,000**	12 000 000
	12,006,500	12 006 500
Allotted and called up		
Equity		
87 750 A ordinary shares of 1p each *(2005 73 125)*	**878**	731
545 545 B ordinary shares of 1p each *(2005 545 545)*	**5,455**	5 455
6 955 C ordinary shares of 1p each *(2005 6 955)*	**70**	70
Non-equity		
10 636 198 preference shares of £1 each *(2005 2 291 442)*	**10,636 198**	2 291 442
	10,642,601	2 297 698

Disclosed in the financial statements as

	2006 £	2005 £
Ordinary share capital	**6,403**	6 256
Creditors amounts falling due after more than one year (see note 14)	**10,636,198**	2 291 442
	10,642,601	2 297 698

Notes *(continued)*

17 Called up share capital *(continued)*

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

	No of shares	Nominal value	Consideration received
	£000	£	£
A ordinary shares	14 625	147	14 624
Preference shares	8 344 756	8 344 756	8 344 756
	8 359 381	8 344 903	8 359 380

	"A" ordinary shares		Preference shares	
	Number	Value £	Number	Value £
Allotment of shares on 6 September 2006	-	-	7 169 756	7 169 756
Allotment of shares on 21 September 2006	-	-	500 000	500 000
Allotment of shares on 30 October 2006	6 500	65	-	-
Allotment of shares on 13 November 2006	-	-	375 000	375 000
Allotment of shares on 15 November 2006	-	-	300 000	300 000
Allotment of shares on 15 December 2006	8 125	82	-	-
	14 625	147	8 344 756	8 344 756

Included within the issue of A ordinary shares which took place on 15 December 2006 are 8 125 shares issued for a total consideration of £8 125 of which £3 250 had been paid in full and £4 875 remained outstanding at the year end (see note 12)

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

Notes *(continued)*

17 Called up share capital *(continued)*

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

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

Notes *(continued)*

18 Reserves

	Share premium account £	Profit and loss account £
Group		
At beginning of year	294 370	(6 468 672)
Issue of shares	14 477	-
Loss for financial year	-	(3 654 443)
At end of year	**308,847**	**(10,123,115)**
Company		
At beginning of year	294 370	(1 405 278)
Issue of shares	14 477	-
Loss for financial year	-	(936 346)
At end of year	**308,847**	**(2,341 624)**

19 Pensions

UK defined contribution scheme

The group makes contributions to the money purchase pension schemes of the directors of the company and certain employees as described in note 1 Contributions paid to the scheme in the year amounted to £46 865 *(2005 £34 477)*

At the end of the year there were contributions outstanding of £30 091 *(2005 £15,723)*

20 Commitments

Group

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

	2006 £	2005 £
Expiring		
Within one year	-	9 194
Within two to five years	-	20 090
	-	29 284

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

There were no other related party transactions in the year or the preceding year other than the transactions with shareholders set out in notes 14 and 17

Notes *(continued)*

22 Notes to the consolidated cash flow statement

Reconciliation of operating loss to net cash outflow from operating activities

	2006 £	2005 £
Operating loss	**(1,674,999)**	(3 736 848)
Goodwill amortisation	**88,637**	88 635
Depreciation	**1,356,628**	801 572
Impairment of tangible fixed assets	**-**	145 247
(Increase)/decrease in stocks	**(46,990)**	18 675
Decrease/(increase) in debtors	**1,849,523**	(1 215 041)
(Decrease)/increase in creditors	**(1,669,377)**	2 434 286
Net cash inflow/(outflow) from operating activities	**(96,578)**	(1 463 474)

Analysis of changes in net funds

	2005 £	Cash flow £	Non-cash movements £	2006 £
Cash at bank and in hand	3 794 496	(3 211 827)	-	**582,669**
Bank overdrafts	(30 745)	26 323	-	**(4,422)**
	3 763 751	(3 185 504)	-	**578,247**
Other loans	(17 386)	17 386	-	**-**
Finance leases	(6 532 965)	(1 064 629)	-	**(7,597,594)**
Preference shares	(2 291 442)	(1 344 756)	(7 000 000)	**(10,636,198)**
Shareholder loans	(9 500 000)	2 500 000	7 000 000	**-**
	(18 341 793)	108 001	-	**(18,233,792)**
	(14 578 042)	(3 077 503)	-	**(17,655,545)**

Reconciliation of net cash flow to movement in net debt

	2006 £	2005 £
(Decrease)/increase in cash in the year	**(3,185,504)**	3 167 479
Cash outflow/(inflow) from decrease/increase in financing	**108,001**	(14 185 829)
Change in net debt resulting from cash flows	**(3,077,503)**	(11 018 350)
Non-cash movements	**-**	(928 172)
Movement in net debt in the year	**(3,077,503)**	(11 946 522)
Opening net debt	**(14,578,042)**	(2 631 520)
Closing net debt	**(17,655,545)**	(14 578 042)