

**GX Networks Limited (formerly  
Pipex Communications UK Limited)**

Directors' report and financial  
statements

Registered number 5306504

For the year ended 31 December 2007

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## Directors' report

The directors present their directors' report and the financial statements of GX Networks Limited (formerly Pipex Communications UK Limited) ("the company") for the year ended 31 December 2007

### Principal activity

The principal activity of the company during the year was the supply of telecommunications services

### Enhanced business review

The results for the year ended 31 December 2007 and the financial position of the company at that date are set out on pages 6 and 7 of the financial statements. On 2 April 2008, FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), the ultimate parent company prior to 2 April 2008, sold part of its business, the company was included in the part of the business that related to the sale. The parent company after the sale was Host Europe Corporation Limited

### Risk

Senior management are aware of their responsibility for managing risks within their business units. Each business unit head reports to the board on the status of these risks through management reports. Risk is regularly reviewed at board level to ensure that risk management is being implemented and monitored effectively.

The board's policy is to ensure that the business units are empowered to run their business effectively and appropriately, bearing in mind the requirements for timely decision making and commercial reality. Insurance policies are regularly reviewed to ensure these are adequate and appropriate, in line with the nature, size and complexity of the business. Standard form contracts are provided for commercial use and to assist the commercial function to negotiate within approved parameters. Through management reports, risks are highlighted and monitored to identify potential business risk areas and to quantify and address the risk wherever possible.

### Business Review

The following business review has been provided by the directors in accordance with the Companies Act. The company is disclosing the main trends and factors likely to affect the future development, performance and position of the business.

Key Performance Indicators (KPIs), which are set at group level, have been devised to allow the board and shareholders to monitor the group as a whole, as well as operating businesses within the group.

The company has financial KPIs which it monitors on a regular basis at board level and where relevant at business unit management meetings as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Revenue	55,064,000	46,361,000
Gross Profit Margin	53.59%	59.17%
Net Debt	14,074,000	3,642,000

The company has identified in detail the various risks it faces. These include:

- the maintenance of a healthy cash balance and debt facilities to allow investment and future development,
- not rationalising cost base effectively resulting in inefficiency/duplication of effort,
- further market pressures on hosting pricing,
- further gross margin erosion from the impact of line rental in revenue mix

## Directors' report (continued)

The company perceives and monitors the following major trends, opportunities and risks for the year ending 31 December 2008 and beyond

- ensuring that the company's objectives of growing revenue and profit in line with market expectations are met, particularly given the challenges of integration, which the board needs to ensure are successfully implemented,
- focusing attention on continuing to improve the strength of the Pipex brand,
- improving EBITDA margins,
- maintaining revenue in a fiercely competitive market is a risk to the business. The board will continue to focus on reducing customer churn by improving service quality and increasing the average number of services taken by each customer,
- maintaining our reputation for high connection quality

### Dividend

The directors do not recommend the payment of a dividend (2006 £nil)

### Directors and Directors' interests

The directors who held office during the year and since the year end are as follows

S C Porter  
M D Read (resigned 28 March 2008)  
P Dubens

None of the directors who held office at the end of the year had any disclosable interest in the shares of the company. Directors' interests, in the ordinary shares of the ultimate holding company as at 31 December 2007, FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), are disclosed in the financial statements of that company.

### Employees

It is the policy of the company that there should be no unfair discrimination in recruiting and promoting staff, including applicants who are disabled. The directors are committed to maintain and develop communication and consultation processes with employees, who in turn are encouraged to develop an awareness of the issues affecting the company.

### Political and charitable contributions

The Company made no political or charitable donations or incurred any political expenditure during the year (2006 £nil)

### 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 to establish that the company's auditors are aware of that information.

## Directors' report (continued)

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that KPMG Audit Plc be re-appointed as auditors of the company will be put to the Annual General Meeting

By order of the Board



**Stewart Porter**

*Secretary*

5 Roundwood Avenue  
Stockley Park  
Uxbridge  
UB11 1FF

23 October 2008

## **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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GX NETWORKS LIMITED (FORMERLY PIPEX COMMUNICATIONS UK LIMITED)**

We have audited the financial statements of GX Networks Limited (formerly Pipex Communications UK Limited) for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the reconciliation of movement in shareholders funds 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 4.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

### **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 company's affairs as at 31 December 2007 and of its profit 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 Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB

23 October 2008

## Profit and loss account

for the period ended 31 December 2007

	<i>Note</i>	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
<b>Turnover</b>	<i>1,2</i>	<b>55,064</b>	<b>46,361</b>
Cost of sales		<b>(25,557)</b>	<b>(18,930)</b>
<b>Gross profit</b>		<b>29,507</b>	<b>27,431</b>
Administrative expenses		<b>(21,532)</b>	<b>(30,147)</b>
<b>Operating profit/(loss)</b>	<i>3,4</i>	<b>7,975</b>	<b>(2,716)</b>
Interest payable and similar charges	<i>5</i>	<b>(2,662)</b>	<b>(2,780)</b>
Other interest receivable and similar income	<i>6</i>	<b>479</b>	<b>119</b>
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>5,792</b>	<b>(5,377)</b>
Tax on ordinary activities	<i>7</i>	<b>(86)</b>	<b>-</b>
<b>Profit/(loss) for the financial year</b>		<b>5,706</b>	<b>(5,377)</b>

There were no other recognised gains or losses other than the loss for the financial year

All of the above results relate to continuing operations

The loss on a historic cost basis is the same as the results reported above

The accompanying notes on pages 9 to 18 form an integral part of the financial statements



**Balance sheet**  
*at 31 December 2007*

	<i>Note</i>	<b>2007</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
<b>Intangible assets</b>					
Goodwill	8	30,742		28,454	
			30,742		28,454
<b>Tangible assets</b>	9		27,395		17,484
Investments	10		45,964		45,964
			104,101		91,902
<b>Current assets</b>					
Stock	11	1		-	
Debtors	12	23,602		65,141	
Cash at bank and in hand		14,074		3,642	
		37,677		68,783	
<b>Current liabilities</b>					
Creditors amounts falling due within one year	13	(104,418)		(129,778)	
<b>Net current liabilities</b>			(66,741)		(60,995)
<b>Long term liabilities</b>					
Creditors amounts falling due after one year	14		(2,208)		(1,479)
<b>Provisions for liabilities</b>	15		(30)		(12)
<b>Net assets</b>			35,122		29,416
<b>Capital and reserves</b>					
Called up share capital	17		1		1
Share premium account	18		37,453		37,453
Profit and loss account	18		(2,332)		(8,038)
<b>Equity shareholder's funds</b>			35,122		29,416

The accompanying notes on pages 9 to 18 form an integral part of the financial statements

These financial statements were approved by the Board of Directors on 23 October 2008 and were signed on its behalf by



**Stewart Porter**  
*Director*

**Reconciliation of movements in shareholder's funds**  
*for the year ended 31 December 2007*

	2007	2006
	£'000	£'000
Profit/(loss) for the financial year	5,706	(5,377)
Issue of new share capital	-	6,600
<b>Net increase in shareholder's funds</b>	<b>5,706</b>	<b>1,223</b>
Opening shareholder's funds	29,416	28,193
<b>Closing shareholder's funds</b>	<b>35,122</b>	<b>29,416</b>

## Notes to 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 and under the historical cost convention

Under Financial Reporting Standard 1 (revised) 'Cash Flow Statements', the company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent undertaking includes the company in its own published consolidated financial statements

As the company was a wholly owned subsidiary of FREEDOM4 Communication plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group

#### *Consolidation*

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.

#### *Going concern*

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £68,949,000 which the directors believe to be appropriate for the following reasons

On 2 April 2008, FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), the ultimate parent company prior to 2 April 2008, sold part of its business, the company was included in the part of the business that related to the sale. The parent company after the sale was Host Europe Corporation Limited. Prior to the sale, FREEDOM4 Group plc restructured part of its operations. As a result of this finance restructuring the company was in a net current liability position and a net asset position at the time of sale. As from the date of sale the company has traded profitably. An intercompany amount of £18.3m owed to FREEDOM4 plc was waived, for other intercompany balances owed amounting to £53.5m, the company has received confirmations from these group entities that they will not seek payment of these amounts for the foreseeable future, not being less than 12 months from the date of signing these accounts. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Furthermore, as with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking and the current profitable trading results the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

The directors continue to monitor the group's funding strategy and have prepared detail forecasts for future periods. These forecasts underpin the going concern basis for the group.

#### *Turnover*

Turnover comprises the value of telecommunication and related services provided net of value added tax. Income is recognised in the period in which the service is provided.

## Notes to the Financial Statements (continued)

### 1 Accounting policies (continued)

#### *Goodwill*

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated useful life. The economic life of goodwill has been estimated by the directors to be 10 years.

#### *Tangible fixed assets and depreciation*

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

Freehold Buildings	20 to 25 years
Network Infrastructure	2 to 10 years
Plant and Machinery	3 to 10 years
Fixtures and Fittings	3 to 7 years
Motor Vehicles	2 to 10 years
Leasehold Improvements	Life of the lease

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

#### *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.

#### *Taxation*

The charge for taxation is based on the results for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax 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 required by FRS19.

### 2 Segmental information

The company had a single class of business during all periods reported on and consequently does not present a segmental analysis. The net liabilities of the company at the end of each year were all attributable to the United Kingdom. The profit before tax of the company during each year was attributable to the United Kingdom. Further segmental analysis can be found in the accounts of the company's parent (during the period reported), Freedom4 Group plc (formerly Freedom4 Communications plc, formerly Pipex Communications plc).

## Notes to the Financial Statements (continued)

### 3 Operating Profit/(loss)

	2007 £'000	2006 £'000
Auditors remuneration		
- audit	163	67

Amounts receivable by the Company's auditor in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statement of the company's parent, FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc)

	2007 £'000	2006 £'000
<i>Operating profit/( loss) is stated after charging/ (crediting)</i>		
Depreciation of tangible fixed assets		
- owned	4,821	3,402
- leased	1,778	1,243
Amortisation of goodwill	4,127	3,761
Management recharges	(12,514)	(11,919)
Rentals payable under operating leases – land and buildings	1,804	1,264
Rentals payable under operating leases – other	1,694	595

Administrative expenses also included the following exceptional items

Intercompany provision write back	(21,438)	-
Fixed asset impairment	1,000	-
Loss on disposal of fixed assets	211	-

At the time of reviewing and entering into new lease agreements, the company identified an impairment of the lease carrying values of £1,000,000

Details of directors' remuneration which was borne by another group company, is disclosed in the financial statements of FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc)

### 4 Staff numbers and costs

The average number of persons employed by the company during each period was as follows

	2007	2006
Full time operations staff	359	86
Executive and administrative	118	26
	477	112

The aggregate payroll costs (including directors' remuneration) were as follows

	2007 £'000	2006 £'000
Wages and salaries	17,458	3,090
Social security costs	3,318	318
Pension costs	424	37
	21,200	3,445

## Notes to the Financial Statements (continued)

### 5 Interest payable and similar charges

	2007 £'000	2006 £'000
Bank interest	67	137
Payable on finance leases	224	270
Other	24	34
On loans from group undertakings	2,339	2,339
	<hr/> 2,662 <hr/>	<hr/> 2,780 <hr/>

### 6 Other interest receivable and similar income

	2007 £'000	2006 £'000
Bank interest	163	107
Other	64	12
From group undertakings	252	
	<hr/> 479 <hr/>	<hr/> 119 <hr/>

### 7 Taxation

There is no charge to corporation tax in each year. At 31 December 2007 there are unrelieved losses of approximately £28,772,000 (2006 £24,255,000). Factors affecting the expected tax credit are as follows:

	2007 £'000	2006 £'000
<i>UK Corporation tax</i>		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	86	-
	<hr/> 86 <hr/>	<hr/> - <hr/>
Tax on profit on ordinary activities	86	-
	<hr/> 86 <hr/>	<hr/> - <hr/>
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	5,792	(5,377)
	<hr/> 5,792 <hr/>	<hr/> (5,377) <hr/>
Current tax at 30%	1,738	(1,613)
<i>Effects of</i>		
Unrelieved tax losses arising in the period	1,355	865
Income not taxable	(6,732)	-
Tax losses surrendered within the group	579	-
Trade losses transferred in	-	(781)
Assets transferred in	-	(479)
Provisions transferred in	-	(192)
Expenses not deductible for tax purposes	1,605	2,028
Short term timing differences	-	256
Depreciation in excess of capital allowances/(capital allowances in excess of depreciation)	1,455	(84)
Adjustment in respect of prior periods	86	-
	<hr/> 86 <hr/>	<hr/> - <hr/>
Total current tax charge	86	-

## Notes to the Financial Statements (continued)

### 8 Intangible fixed assets

	Goodwill £'000
<i>Cost</i>	
At 1 January 2007	35,211
Additions (note 19)	6,415
<b>At 31 December 2007</b>	<b>41,626</b>
<i>Amortisation</i>	
At 1 January 2007	(6,757)
Charge for period	(4,127)
<b>At 31 December 2007</b>	<b>(10,884)</b>
<i>Net book value</i>	
<b>At 31 December 2007</b>	<b>30,742</b>
At 31 December 2006	28,454

The positive goodwill arising in the period is due to the transfer from other Freedom4 Group plc companies, (just prior to the group's sale of its broadband and voice division see note 19)

### 9 Tangible fixed assets

	Freehold buildings £,000	Leasehold improvements £,000	Network Infrastructure £,000	Fixtures and fittings £,000	Motor Vehicles £,000	Total £,000
<i>Cost</i>						
At 1 January 2007	1,834	652	21,117	758	21	24,382
Acquisitions (note 19)	-	15	695	-	-	710
Additions	7,000	2,920	6,749	1,370	0	18,039
Disposals	(1,834)	(237)	0	(28)	0	(2,099)
<b>At 31 December 2007</b>	<b>7,000</b>	<b>3,350</b>	<b>28,561</b>	<b>2,101</b>	<b>21</b>	<b>41,032</b>
<i>Depreciation</i>						
At 1 January 2007	85	184	6,184	442	2	6,898
Charge for the period	127	290	5,688	475	19	6,599
Impairment	-	-	1,000	-	-	1,000
Disposals	(149)	(223)	(465)	(23)	-	(859)
<b>At 31 December 2007</b>	<b>63</b>	<b>252</b>	<b>12,407</b>	<b>895</b>	<b>21</b>	<b>13,637</b>
<i>Net book value</i>						
<b>At 31 December 2007</b>	<b>6,937</b>	<b>3,099</b>	<b>16,154</b>	<b>1,206</b>	<b>0</b>	<b>27,395</b>
At 31 December 2006	1,749	468	14,932	315	19	17,485

Included in the total net book value of Network Infrastructure is £4,971,000 (2006 £2,334,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £1,778,000 (2006 £1,243,000)

## Notes to the Financial Statements (continued)

### 10 Investments

	Interest in subsidiary undertaking £'000
Cost and net book value at 1 January and 31 December 2007	
Investment in Pipex Communications One Limited (formerly GX Networks Limited (formerly Pipex Communications UK Limited))	8,510
Investment in Host Europe Limited	30,854
Investment in Donhost Limited	6,600
	<hr/> 45,964 <hr/>

The company's subsidiary undertakings are as follows

Name	Proportion of ordinary share capital held	Nature of business/activity
GX Networks UK Limited (formerly Pipex Communications One Limited)	100%	Non trading
Donhost Limited	100%	Non trading
Host Europe Limited	100%	Non trading
* 123-Reg Limited (formerly Pipex Communications Hosting Limited)	100%	Non trading
*Webfusion Internet Solutions Limited	100%	Dormant
* Magic Moments Internet Services Limited	100%	Dormant
* Magic Moments Design Limited	100%	Dormant
* Magic Moments Employee Benefits Trust Company Limited	100%	Dormant
* Magic Moments Investments Limited	100%	Non trading
* Host Europe GmbH	100%	Dormant
Cyberpress Limited	100%	Dormant
Defries & Haim Limited	100%	Dormant

All subsidiary undertakings are registered in England and Wales with the exception of Host Europe GmbH which is registered in Germany

\* Indicates companies that are indirectly owned through Host Europe Limited

Cyberpress Limited was acquired on 21 May 2007 for consideration of £1 from Pipex Communications Services Limited

Defries & Haim Limited was acquired on 24 May 2007 for consideration of £1 from Pipex Communication Services Limited

### 11 Stock

	2007 £'000	2006 £'000
Finished goods and goods for resale	1	-
	<hr/>	<hr/>



## Notes to the Financial Statements (continued)

### 12 Debtors

	2007 £'000	2006 £'000
Trade debtors	6,584	2,177
Amounts owed by other group undertakings	6,400	60,611
Prepayments and accrued income	3,935	1,886
Other debtors	6,683	467
	<u>23,602</u>	<u>65,141</u>

### 13 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	7,360	7,776
Amounts owed to group undertakings	81,059	114,331
Taxation and social security	633	737
Finance leases	3,315	1,317
Other creditors	2,172	148
Accruals and deferred income	9,879	5,469
	<u>104,418</u>	<u>129,778</u>

### 14 Creditors: amounts falling due after more than one year

	2007 £'000	2006 £'000
Obligations under finance leases	<u>2,208</u>	<u>1,479</u>

### 15 Provisions for liabilities

	2007 £'000
As at 1 January	12
Arising during the year	30
Utilised during the year	(12)
At 31 December	<u>30</u>

The 2007 provision of £30,000 is a dilapidation provision for Accent House. The 2006 provision of £12,000 was for a lease which was acquired in 2006 and was utilised during the year.

## Notes to the Financial Statements (continued)

### 16 Commitments

- (a) The Company had commitments to make annual payments under non-cancellable operating leases, which expire as follows

	Short leasehold property 2007 £'000	Other 2007 £'000	Short leasehold property 2006 £'000	Other 2006 £'000
Within one year	9	1,570	27	637
Within two to five years	2,461	92	356	3
After five years	15,161	-	901	-
	<u>17,631</u>	<u>1,662</u>	<u>1,284</u>	<u>640</u>

- b) In addition to the above, at the end of the financial year the company had entered into commitments amounting to £9,002,154 (2006 £9,938,217) in respect of telecom circuits, which are typically twelve months in length and cancellable at one months' notice
- (c) The Company had commitments to make annual payments under finance leases, which expire as follows

	2007 £'000	2006 £ 000
Within one year	3,315	1,317
Within two to five years	2,208	1,479
After five years	-	-
	<u>5,523</u>	<u>2,796</u>

### 17 Called up share capital

	2007 £	2006 £
<b>Authorised</b>		
100,000 ordinary shares of 1p each	<u>1,000</u>	<u>1,000</u>
<b>Allotted and called up</b>		
971 000 ordinary shares of 1p each	<u>971</u>	<u>971</u>

## Notes to the Financial Statements (continued)

### 18 Share premium and reserves

	Share capital	Share premium account £'000	Profit and Loss account £'000	Total £'000
At 1 January 2007	1	37,453	(8,038)	29,416
Profit for the year	-	-	5,706	5,706
At 31 December 2007	1	37,453	(2,332)	35,122

### 19 Acquisitions

On 31 August 2006 as a result of the parent company disposing of its broadband and voice division to an external company, a number of assets and liabilities were acquired from the broadband and voice division that more closely aligned with the remaining business within GX Networks Limited. These assets and liabilities were transferred at fair value.

Details of the fair values of the assets and liabilities acquired are set out below:

	Book value of assets acquired £'000	Fair value adjustments £'000	Fair value £'000
Fixed assets	710	-	710
Patent	5	-	5
Debtors	1,975	-	1,975
Cash	102	-	102
Creditors (falling due within one year)	(3,587)	-	(536)
<b>Net liabilities</b>	<b>(795)</b>	<b>-</b>	<b>7,950</b>
<b>Goodwill</b>			<b>6,415</b>
<b>Consideration</b>			<b>5,620</b>

### 20 Pensions

The company does not operate an occupational pension scheme but makes a percentage contribution of qualifying salary to certain employees' personal pension schemes. The amount charged to the profit and loss account in respect of such contributions was £208,000 (2006 £37,000). The outstanding contributions to the pension scheme were £nil (2006 £nil).

### 21 Post balance sheet events

As at the date of approval of the accounts, FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), the ultimate parent company prior to 2 April 2008, had sold part of its business, the company was included in the part of the business that related to the sale. The parent company after the sale was Host Europe Corporation Limited.

## Notes to the Financial Statements (continued)

### 22 Immediate and ultimate parent company

As at the year end, 31 December 2007, the ultimate parent company was FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc), incorporated in England and Wales

As noted in the director's report, the group in which the results of the company are consolidated was that headed by FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc) The consolidated accounts of this group are available to the public and may be obtained from

FREEDOM4 Group plc (formerly FREEDOM4 Communications plc formerly Pipex Communications plc)  
5 Roundwood Avenue  
Stockley Park  
Uxbridge  
UB11 1FF

After the sale of the company (post balance sheet event note above), the ultimate parent company at the date of approval of the accounts is

Host Europe Corporation Limited  
Ashurst, Broadwalk House  
5 Appold Street  
London  
EC2A 2HA