Cabot Communications Limited

Financial statements

For the year ended 31 December 2004

Grant Thornton

Company No. 02817269

Company information

Company registration number	02817269
Registered office	Verona House Filwood Road Bristol BS16 3RY
Directors	E T Erdogan O Yungul I Alkim
Secretary	A A Somyurek
Bankers	HSBC plc 27 Gloucester Road North Bristol BS7 0SQ
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditors 43 Queen Square Bristol BS1 4QR

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Report of the directors

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

Principal activities and business review
The company is principally engaged in digital TV software development and sales.

Cabot's turnover has more than doubled in 2004 thanks to the growing business and especially the royalty revenues. This was the outcome of the investments in product development in the previous years. Cabot's overall business and royalty income will continue growing in line with the growth of the European digital TV market in 2005 and beyond. The relationship with companies such as ST, LSI, Philips and JVC are improving towards a long-term partnership, with these partners Cabot is entering new technologies such as DVD recorder, digital video recorder and embedded conditional access. These partners are also opening new market potentials such as Asia. The foundation of Cabot-Izmir in 2004 will help Cabot focus more on core product development which will yield more royalty income, whereas the engineering services will be outsourced to Cabot-Izmir which is more cost effective due to the lower engineering costs in Turkey.

Results and dividends
The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

The directors and their interests in the shares of the company
The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Class of share	At 31 December 2004	At 1 January 2004
E T Erdogan	Ordinary 'A' shares	1,250	1,250
	Ordinary 'B' shares	-	-
O Yungul	Ordinary 'A' shares	1,250	1,250
	Ordinary 'B' shares	-	-
I Alkim	Ordinary 'A' shares	-	-
	Ordinary 'B' shares	-	-

The company granted share options in the year in respect of ordinary 'A' shares of 1 p each. These options are exercisable at 1 p per share between 2 and 10 years from the date of the grant. At 31 December 2004, I Alkim had options over 500 ordinary 'A' shares exercisable between 1 April 2006 and 31 March 2016.

Directors' responsibilities

United Kingdom 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 at the end of the year and of the profit or loss for the year then ended. 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
- 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

On 1 July 2004, the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under section 26(5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

A A Somyurek
Secretary
21 April 2005

Grant Thornton

Report of the independent auditors to the members of Cabot Communications Limited

We have audited the financial statements of Cabot Communications Limited for the year ended 31 December 2004 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 22. 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 auditors' 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 report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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 report of the directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

Report of the independent auditors to the members of Cabot Communications Limited (continued)

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 as at 31 December 2004 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

BRISTOL
21 April 2005

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

Cash flow statement

The directors have taken advantage of the exemption in the Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is a subsidiary undertaking where 90 per cent of the voting rights are controlled within the group. The consolidated financial statements in which the company is included are publicly available.

Consolidation

In the opinion of the directors, the company and its subsidiary undertaking comprise a small-sized group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

Turnover

Revenue from customer contracts is recognised on the satisfactory completion of each stage of the contract.

Non-refundable advance royalties are credited to the profit and loss account when invoiced. Follow up royalties receivable are credited to the profit and loss account on an accruals basis.

Support and maintenance income is spread on a pro-rata monthly basis over the period of the contract.

Research and development

Research and development expenditure is charged to profits in the period in which it is incurred. Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised on a straight line basis over the expected lifetime of the project. All other development costs are written off in the year of expenditure.

Amortisation

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

Development costs - 33.33% straight line (previously 25% straight line)

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

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

Fixtures & Fittings	-	20% straight line (previously 15% reducing balance)
Computer Equipment	-	33.33% straight line (previously 25% reducing balance)

Investments

Investments are included at cost.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Profit and loss account

	Note	2004 £	2003 £
Turnover	1	**4,028,162**	1,684,469
Cost of sales		**1,687,186**	773,541
Gross profit		**2,340,976**	910,928
Other operating charges	2	**1,677,477**	904,837
Operating profit	3	**663,499**	6,091
Interest payable and similar charges	6	**607**	1,281
Profit on ordinary activities before taxation		**662,892**	4,810
Tax on profit on ordinary activities	7	**204,681**	10,781
Retained profit/(loss) for the financial year	21	**458,211**	(5,971)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

Balance sheet

	Note	2004 £	2003 £
Fixed assets			
Intangible assets	8	129,612	323,067
Tangible assets	9	228,805	227,175
Investments	10	28,000	-
		386,417	550,242
Current assets			
Stocks	11	56,664	-
Debtors	12	1,717,507	317,992
Cash at bank and in hand		79,079	243,967
		1,853,250	561,959
Creditors: amounts falling due within one year	13	795,545	213,796
Net current assets		1,057,705	348,163
Total assets less current liabilities		1,444,122	898,405
Creditors: amounts falling due after more than one year	14	1,132,531	1,124,675
		311,591	(226,270)
Provisions for liabilities and charges			
Deferred taxation	15	79,650	-
		231,941	(226,270)
Capital and reserves			
Called-up equity share capital	20	500	500
Profit and loss account	21	231,441	(226,770)
Shareholders' funds/(deficiency)	21	231,941	(226,270)

These financial statements were approved by the directors on 21 April 2005 and are signed on their behalf by:

I Alkim

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.
An analysis of turnover is given below:

	2004	2003
	£	£
United Kingdom	609,837	531,802
Europe	3,299,925	869,900
Asia	118,400	282,767
	4,028,162	1,684,469

2 Other operating income and charges

	2004	2003
	£	£
Administrative expenses	1,677,477	904,837

3 Operating profit

Operating profit is stated after charging/(crediting):

	2004	2003
	£	£
Amortisation	193,455	57,205
Depreciation of owned fixed assets	183,890	45,382
Auditors' remuneration:		
Audit fees	6,500	5,000
Operating lease costs:		
Land and buildings	73,546	52,975
Plant and equipment	13,814	8,238
Net loss on foreign currency translation	32,686	13,342

4 Employees

The average number of staff employed by the company during the financial year amounted to:

	2004	2003
	No	No
Number of employees	39	28

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	1,554,812	886,914
Social security costs	173,259	94,491
Other pension costs	33,764	19,116
	1,761,835	1,000,521

5 Directors

Remuneration in respect of directors was as follows:

	2004	2003
	£	£
Emoluments receivable	-	8,411
Compensation for loss of office	-	29,408
	-	37,819

No directors received any remuneration during the year.

6 Interest payable and similar charges

	2004	2003
	£	£
Other similar charges payable	607	1,281

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2004	2003
	£	£
Current tax:		
UK Taxation		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2003 - 19%)	125,031	-
Foreign tax		
Current tax on income for the year	-	10,781
Total current tax	125,031	10,781
Deferred tax:		
Origination and reversal of timing differences	79,650	-
Tax on profit on ordinary activities	204,681	10,781

7 Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2003 - 19%).

	2004	2003
	£	£
Profit on ordinary activities before taxation	**662,892**	4,810
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003:19%)	**198,868**	914
Expenses not deductible for tax purposes	**3,982**	13,496
Capital allowances for the period lower than depreciation	**84,899**	(59,119)
Utilisation of tax losses	**(162,718)**	-
Increase in tax losses	-	46,758
Relief for withholding tax suffered	-	(2,049)
Foreign tax charge	-	10,781
Total current tax (note 7(a))	**125,031**	10,781

8 Intangible fixed assets

	Development costs
	£
Cost	
At 1 January 2004 and 31 December 2004	425,203
Amortisation	
At 1 January 2004	102,136
Charge for the year	193,455
At 31 December 2004	295,591
Net book value	
At 31 December 2004	**129,612**
At 31 December 2003	323,067

During the year there has been a change in the period over which intangible fixed assets are being amortised, which has resulted in an increase in the amortisation charge for the current year of £75,125. This increase is included within the charge for the year of £193,455.

9 Tangible fixed assets

	Fixtures & Fittings £	Computer Equipment £	Total £
Cost			
At 1 January 2004	109,939	231,699	341,638
Additions	19,063	166,457	185,520
At 31 December 2004	129,002	398,156	527,158
Depreciation			
At 1 January 2004	37,550	76,913	114,463
Charge for the year	34,364	149,526	183,890
At 31 December 2004	71,914	226,439	298,353
Net book value			
At 31 December 2004	**57,088**	**171,717**	**228,805**
At 31 December 2003	72,389	154,786	227,175

During the year there has been a change in the period over which tangible fixed assets are being depreciated, which has resulted in an increase in the depreciation charge for the current year of £89,862. This increase is included within the charge for the year of £183,890.

10 Investments

	Cabot Izmir Yazilim ve Donanim Ic ve Dis Ticaret Sanayi Anonim Sirketi ("Cabot Izmir") £
Cost	
Additions	28,000
At 31 December 2004	28,000
Net book value	
At 31 December 2004	28,000

At 31 December 2004 the company held more than 20% of the allotted share capital of the following undertakings:

	Country of incorporation	Class of share capital held	Proportion held by the company	Nature of business	Aggregate of capital and reserves £	Loss for period £
Cabot Izmir	Turkey	Ordinary	58%	Software integration	54,000	(62,000)

11 Stocks

	2004 £	2003 £
Work in progress	**56,664**	–

12 Debtors

	2004	2003
	£	£
Trade debtors	982,259	242,646
Amounts owed by group undertakings	193,772	12,405
Other debtors	49,965	18,675
Prepayments and accrued income	491,511	44,266
	1,717,507	317,992

13 Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	55,905	66,790
Amounts owed to group undertakings	187,486	32,183
Corporation tax	125,031	–
PAYE and social security	54,406	38,783
Accruals and deferred income	372,717	76,040
	795,545	213,796

14 Creditors: amounts falling due after more than one year

	2004	2003
	£	£
Amounts owed to group undertakings	1,132,531	1,124,675

15 Deferred taxation

The movement in the deferred taxation provision during the year was:

	2004
	£
Profit and loss account movement arising during the year	79,650
Provision carried forward	79,650

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2004	2003
	£	£
Excess of taxation allowances over depreciation on fixed assets	79,650	–

16 Leasing commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as set out below.

	2004		2003	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	£	£	£	£
Operating leases which expire:				
Within 1 year	40,958	4,257	61,616	6,143
Within 2 to 5 years	30,866	6,204	71,934	4,259
	71,824	10,461	133,550	10,402

17 Capital commitments

The company had no capital commitments at 31 December 2004 or 31 December 2003.

18 Contingent liabilities

There were no contingent liabilities at 31 December 2004 or 31 December 2003.

19 Related party transactions

During the year the company made sales to and purchases from Vestel Elektronik Sanayi ve Ticaret A.S. ("Vestel Elektronik"), the intermediate parent undertaking, to the value of £563,486 (2003:£187,683) and £47,061 (2003:£nil) respectively. At the year end the amount due from Vestel Elektronik was £1,780,925 (2003:£1,211,719). The company owed Vestel Elektronik £2,913,456 (2003:£2,336,394) on intercompany account. The net amount owed to Vestel Elektronik was £1,132,531 (2003:£1,124,675).

During the year the company made sales to and purchases from Vestel Komunikasyon, a fellow subsidiary undertaking, to the value of £910,077 (2003:£202,508) and £200,960 (2003:£208) respectively. At the year end the amount due from Vestel Komunikasyon was £137,831 (2003:£2,361). The amount owed to Vestel Komunikasyon was £247 (2003:£208).

At the year end the amount due from Vestel Netherlands, a fellow subsidiary undertaking, was £nil (2003:£269).

At the year end the amount due from Vestel White Goods, a fellow subsidiary undertaking, was £nil (2003:£3,293).

During the year the company made sales to Vestel Foreign Trade, a fellow subsidiary, to the value of £23,525 (2003:£6,380). At the year end the amount due from Vestel Foreign Trade was £nil (2003:£6,380). The amount owed to Vestel Foreign Trade was £nil (2003:£10,027).

During the year the company made sales to Vestel UK, a fellow subsidiary, to the value of £50,546 (2003:£nil). At the year end the amount due from Vestel UK was £1,559 (2003:£nil). The amount owed to Vestel UK was £nil (2003:£21,948).

During the year the company made sales to and purchases from Cabot Izmir, a subsidiary undertaking of this company, to the value of £51,482 and £253,315 respectively. At the year end the amount due from Cabot Izmir was £54,382 (2003:£nil). The amount owed to Cabot Izmir was £187,239 (2003:£nil).

20 Share capital

Authorised share capital:

	2004	2003
	£	£
2,500,000 (2003 - 10,000) Ordinary 'A' shares shares of £0.01 each	25,000	100
22,500,000 (2003 - 90,000) Ordinary 'B' shares shares of £0.01 each	225,000	900
	250,000	1,000

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary 'A' shares shares of £0.01 each	3,755	38	8,755	88
Ordinary 'B' shares shares of £0.01 each	46,245	462	41,245	412
	50,000	500	50,000	500

Contingent rights to the allotment of shares

The company has granted options in respect of ordinary 'A' shares exercisable at 1p per share to a director and to certain employees. These were granted on 12 November 2002 (1,940 ordinary 'A' shares), on 8 March 2003 (400 ordinary 'A' shares), on 8 September 2003 (330 ordinary 'A' shares), on 31 March 2004 (980 ordinary 'A' shares) and on 30 September 2004 (870 ordinary 'A' shares) and are exercisable between 2 and 10 years from these respective dates.

Shareholders rights

The ordinary 'A' shares and the ordinary 'B' shares rank pari passu in all respects, except that the ordinary 'A' shareholders are not entitled to vote upon a resolution for the removal from office of a director appointed by the ordinary 'B' shareholders.

During the year 5,000 ordinary 'A' shares were reclassified as ordinary 'B' shares.

21 Reconciliation of shareholders' funds and movement on reserves

	Share capital	Profit and loss account	Total share-holders' funds
	£	£	£
At 1 January 2003	500	(220,799)	(220,299)
Loss for the year	-	(5,971)	(5,971)
At 31 December 2003	500	(226,770)	(226,270)
Retained profit for the year	-	458,211	458,211
At 31 December 2004	500	231,441	231,941

22 Ultimate parent company

The directors consider that the intermediate parent undertaking and controlling related party of this company is Vestel Elektronik Sanayi ve Ticaret A.S. ("Vestel Elektronik"), a company registered in Turkey. The largest group of undertakings for which group accounts have been drawn up is that headed by Vestel Elektronik, and copies of the group accounts can be attained at: Vestel Elektronik AS, Ambarli Petrol Ofisi, Dolum Tesisleri Yolu, 34840 Avcilar, Istanbul, Turkey.

The ultimate parent company is Collar Holding BV, registered in Amsterdam.