

ITV Digital Holdings Limited

Registered Number: 3261192

Directors' Report and Financial Statements

For the Year Ended 30 September 2002



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ITV Digital Holdings Limited

Directors' Report for the Year Ended 30 September 2002

The directors present their report and the audited financial statements of the Company for the year ended 30 September 2002.

PRINCIPAL ACTIVITY

The Company's principal activity is as a holding company for the ITV Digital Group, whose principal activity was the provision of pay television and interactive services via the medium of digital terrestrial broadcasting.

The Company's subsidiaries, ONdigital 1998 plc (formerly ITV Digital plc) and ONdigital 1998 (Services) Limited (formerly ITV Digital (Services) Limited), were placed into the hands of administrators under the Insolvency Act 1986 on 27 March 2002 and into creditors' voluntary liquidation on 18 October 2002. The Company's cost of investment in these subsidiaries has therefore been fully written off and loans to those entities have also been fully written off as the level of dividend from the liquidation is uncertain.

BASIS OF PREPARATION

As the Company's subsidiaries are in liquidation, consolidated accounts have not been prepared.

The Company is presently wholly dependent on the support of its shareholders, Carlton Communications Plc ("Carlton") and Granada Media plc ("Granada") (together the "Shareholders"), in order to continue to meet its debts as they fall due. The Shareholders have no legal or other obligation to continue to fund the Company.

The administrators of ONdigital 1998 plc (formerly ITV Digital plc) took the decision to close that company's main trading business on 30 April 2002 and it ceased to broadcast pay television and interactive services on 1 May 2002. As a result, the Company is not expected to be in a position to repay the loans due to Shareholders. In the absence of guarantees provided by the Shareholders that the loans will not be called for repayment, it is the opinion of the directors that the Company is not a going concern, because it is unable to fund its present obligations and liabilities. These accounts have therefore not been prepared on a going concern basis.

RESULTS AND DIVIDENDS

The Company's loss for the financial year is £143.7 million (2001: £1,062.9 million loss). The directors do not propose the payment of a dividend (2001: nil).

DIRECTORS AND THEIR INTERESTS

The directors who held office during this year, are as follows:

Charles L Allen	
Gerard M Murphy	
Henry E Staunton	
Michael P Green	
Nigel N Walmsley	(resigned 26.11.01)
Michael A Green	(appointed 26.11.01)
Stephen R Morrison	(resigned 30.09.02)
Graham J Parrott	(appointed 30.09.02)

On 31 January 2003 G M Murphy resigned as a director of the company and P C Murray was appointed in his place. Details of the interests of Michael P Green and Gerard M Murphy in the shares of Carlton Communications Plc, which owns 50% of the Company, are disclosed in the Carlton Communications Plc Annual Report and Accounts, copies of which can be obtained from the Company Secretary, Carlton Communications Plc, 25 Knightsbridge, London SW1X 7RZ. Details of the interests of Michael A Green in the shares of Carlton Communications Plc are disclosed in the accounts of Carlton Television Limited, a wholly owned subsidiary of Carlton Communications Plc, copies of which are available from Companies House.

Granada Media plc, which owns 50% of the Company, is a wholly owned subsidiary of Granada plc. Details of the interests of Charles L Allen, Graham J Parrott and Henry E Staunton in the shares of Granada Media plc, which owns 50% of the Company are disclosed in the Granada plc Annual Report and Accounts, copies of which can be obtained from the Company Secretary, Granada plc, The London Television Centre, Upper Ground, London, SE1 9LT.

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 of the profit or loss of the Company 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; 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 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

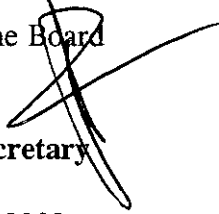
AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 July 2003 and on the same date, by ordinary resolution, the members appointed its successor, PricewaterhouseCoopers LLP, as auditors.

25 Knightsbridge
London SW1X 7RZ

By order of the Board

D Abdoo
Company Secretary



24 September 2003

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ITV Digital Holdings Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and related notes.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 2, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance. This report including the opinion has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

BASIS OF AUDIT OPINION

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

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

BASIS OF PREPARATION

We draw your attention to note 1 which sets out disclosures related to the placing of the Company's trading subsidiaries into liquidation.

The Company is funded by its two shareholders but no legally binding commitment to continued funding or non-recall of debts owed has been made and the shareholders have no legal or other obligation to continue to support the Company.

In the absence of a formal indication from the shareholders that the loans will not be called for repayment for the foreseeable future, the directors have concluded that the going concern basis is not appropriate in these financial statements.

Accordingly, adjustments have been made to these financial statements to reflect the fact that they have not been prepared on a going concern basis. These adjustments reduce assets to their realisable values. Our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 30 September 2002 and its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers LLP', is written over a horizontal line.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
1 Embankment Place
London
WC2N 6RH

24 September 2003

ITV Digital Holdings Limited

Profit and Loss Account for the Year Ended 30 September 2002

	Note	2002 £'000	2001 £'000
Turnover		-	-
Cost of sales		-	-
Gross Profit		-	-
Write off loans receivable from subsidiary undertakings		(123,288)	(319,191)
Administrative expenses		(2)	(1)
Operating loss	2	(123,290)	(319,192)
Write off fixed asset investments	5	-	(715,100)
Net interest (payable)/receivable	4	(20,444)	(28,581)
Loss on ordinary activities before taxation		(143,734)	(1,062,873)
Tax on loss on ordinary activities		-	-
Retained loss for the financial year	8	(143,734)	(1,062,873)

The Company had no recognised gains or losses during either year other than those reflected in the profit and loss account above. A separate statement of recognised gains and losses has therefore not been presented.

The notes on pages 9 to 14 form part of these financial statements.

ITV Digital Holdings Limited

Balance Sheet at 30 September 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Investments	5	-	-
Current assets			
Cash at bank and in hand	10	-	1
		-	1
Creditors – amounts falling due within one year	6	(974,607)	(830,874)
Net current liabilities		(974,607)	(830,873)
Total assets less current liabilities		(974,607)	(830,873)
Capital and reserves			
Called up share capital	7	20,700	20,700
Share premium account	8	186,300	186,300
Other reserves	8	25,000	25,000
Profit and loss account	8	(1,206,607)	(1,062,873)
Equity shareholders' funds		(974,607)	(830,873)

Approved by The Board on 24 September 2003



M A Green
DIRECTOR

The notes on pages 9 to 14 form part of these financial statements.

ITV Digital Holdings Limited

Statement of Cash Flows for the Year Ended 30 September 2002

	Note	2002 £'000	2001 £'000
Cashflow from operating activities		-	-
Capital expenditure and financial investment			
Receipt of loan repayment from subsidiary undertaking		-	483,100
Increase in loan to subsidiary undertaking		(113,000)	(376,992)
Acquisitions and disposals			
Increase in investment in subsidiary undertaking		-	(483,100)
Cash outflow before management of liquid resources and financing		(113,000)	(376,992)
Financing			
Increase in Shareholder loans		112,999	376,992
Increase / (decrease) in cash in the year	10	(1)	-

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

1. Accounting policies

a) Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Basis of Preparation

The financial statements have not been prepared on a going concern basis.

The Company is funded by its two Shareholders, Carlton and Granada. Shareholder loans total £974,603,804 (including capitalised and accrued interest) at the balance sheet date (2001: £830,874,000).

No commitment to continued funding or non-recall of debts owed has been made by Carlton or Granada and the Shareholders have no legal or other obligation to continue to support the Company.

In the absence of a formal indication from the Shareholders that the loans will not be called for repayment for the foreseeable future, the directors have concluded that the going concern basis is not appropriate in these financial statements.

Accordingly, the financial statements have not been prepared on a going concern basis and adjustments have been made to reduce assets to their realisable values.

c) Consolidated accounts

The Company has not prepared consolidated financial statements.

The Company's subsidiaries, ONdigital 1998 plc (formerly ITV Digital plc) and ONdigital 1998 (Services) Limited (formerly ITV Digital (Services) Limited), have been placed into the hands of liquidators under the Insolvency Act 1986. The Company's cost of investment in these subsidiaries has therefore been written down to zero and loans to those entities have also been written down to zero as the amount of any liquidation dividend is uncertain.

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

2. Operating loss

	2002 £'000	2001 £'000
Operating loss is stated after charging:		
Auditors' remuneration		
- Audit services	2	1
Write off loans receivable from subsidiary undertakings	108,400	302,040
Write off interest accrued in current year	14,888	17,151

3 Staff costs

None of the directors of the Company received any remuneration from the Company (2001: £nil).

4. Net interest (payable)/receivable

	2002 £'000	2001 £'000
Interest payable on shareholder loans	(35,332)	(45,732)
Interest receivable from subsidiary undertaking	14,888	17,151
Net interest payable	<u>(20,444)</u>	<u>(28,581)</u>

5. Investments

	ONdigital 1998 plc £'000	ONdigital 1998 (Services) Limited £'000	Total £'000
Cost at 1 October 2001 and 30 September 2002	715,100	-	715,100
Provisions at 1 October 2001 and 30 September 2002	(715,100)	-	(715,100)
Net Book Value at 1 October 2001 and 30 September 2002	-	-	-

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

5. Investments (continued)

The Company has investments in two subsidiary companies:

- ONdigital 1998 plc (formerly ITV Digital plc) – 233 million Ordinary shares with a nominal value of 1p each
- ONdigital 1998 (Services) Limited (formerly ITV Digital (Services) Limited) - 2 Ordinary shares with a nominal value of £1 each

Both subsidiaries are wholly owned, incorporated in the United Kingdom and registered in England and Wales.

Both subsidiaries have been placed into the hands of liquidators under the Insolvency Act 1986. The Company's cost of investment in these subsidiaries has therefore been fully written off and loans to those entities have also been fully written off as the amount of any liquidation dividend is uncertain.

6. Creditors – amounts falling due within one year

	2002 £'000	2001 £'000
Short term shareholder loan	874,394	765,994
Capitalised interest on shareholder loan	100,210	64,570
Accruals and deferred income	3	310
	<u>974,607</u>	<u>830,874</u>

On 28 September 2001 further loan facilities of £50.0 million (increased to £56.5 million in January and February 2002) were made available from each of the shareholders which bore interest at 7% above Barclays base rate, until 3 May 2002 when the loans became non-interest bearing.

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

7. Called up equity share capital

	2002 £'000	2001 £'000
Authorised equity share capital		
172,500,000 ordinary C shares of 10p each	17,250	17,250
172,500,000 ordinary G shares of 10p each	17,250	17,250
	<u>34,500</u>	<u>34,500</u>
Allotted and fully paid		
103,500,500 ordinary C shares of 10p each	10,350	10,350
103,500,500 ordinary G shares of 10p each	10,350	10,350
	<u>20,700</u>	<u>20,700</u>

All C and G class shares are identical and rank pari passu in all respects as the same class of share.

8. Reserves

	Share premium account £'000	Other reserves £'000	Profit and loss account £'000
At 1 October 2001	186,300	25,000	(1,062,873)
Loss transferred to reserves	-	-	(143,734)
At 30 September 2002	<u>186,300</u>	<u>25,000</u>	<u>(1,206,607)</u>

9. Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Retained loss for the financial year	(143,734)	(1,062,873)
Net (reduction in)/addition to shareholders' funds	(143,734)	(1,062,873)
Shareholders' funds - Opening	<u>(830,873)</u>	<u>232,000</u>
Shareholders' funds - Closing	<u>(974,607)</u>	<u>(830,873)</u>

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

10. Reconciliation to net debt/(cash)

	30 September 2001 £'000	Cash flow £'000	30 September 2002 £'000
Cash at bank and in hand	1	(1)	-
Net Funds	<u>1</u>	<u>(1)</u>	<u>-</u>

11. Shareholders

The Company is jointly owned by Carlton and Granada each holding a stake of 50%. Copies of Carlton Communications Plc accounts can be obtained from the Company Secretary at 25 Knightsbridge, London SW1X 7RZ. Copies of the Granada Media plc accounts can be obtained from the Company Secretary at The London Television Centre, Upper Ground, London SE1 9LT.

ITV Digital Holdings Limited

Notes to the Financial Statements for the Year Ended 30 September 2002

12. Related party transactions

	2002		2001	
	Value of transactions	(Receivable)/ payable at 30 Sep	Value of transactions	(Receivable)/ payable at 30 Sep
	£'m	£'m	£'m	£'m
Transactions with Carlton Communications Plc				
Loan principal (net - see c) below)	54.2	437.2	188.5	383.0
Loan interest (accrued and capitalised)	17.7	50.1	22.9	32.4
Transactions with Granada Media plc				
Loan principal (net - see c) below)	54.2	437.2	188.5	383.0
Loan interest (accrued and capitalised)	17.7	50.1	22.9	32.4
Transactions with ONdigital 1998 plc (formerly ITV Digital plc)				
Loan principal - see c) below	113.0	-	377.0	-
Loan interest	14.9	-	17.2	-
Repayment of loan principal	-	-	(483.1)	-
Increase in equity	-	-	483.1	-

a) ITV Digital Holdings Limited did not undertake any transactions with ONdigital (Services) 1998 Limited (formerly ITV Digital (Services) Limited) during the year and there were no outstanding balances at year-end.

b) The company has acted, and continues to act, as agent for its shareholders in the settlement of claims brought against the Shareholders and the Company's subsidiaries, in connection with the insolvency of those subsidiaries.

c) During the year the Company assigned a total of £44.0m of principal owing from ONdigital 1998 plc by way of the reduction of loans by the amount of £2.3m (total £4.6m) from each of Carlton and Granada.

13. Contingent liabilities

As a result of the events described in Note 12(b), a number of claims have been made against the Company by employees of the Company's subsidiaries. No provision has been made for these claims as the Directors do not believe that the Company is liable to meet them.