

Company Registration No. 3510105

KINGSTON NETWORK HOLDINGS LIMITED

Report and Financial Statements

31 March 2005



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KINGSTON NETWORK HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss accounts	5
Statement of total recognised gains and losses	5
Balance sheet	6
Notes to the accounts	7

KINGSTON NETWORK HOLDINGS LIMITED

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Fallen

P Simpson (appointed 18 April 2005)

SECRETARY

J P C Bailey LLB

REGISTERED OFFICE

37 Carr Lane

Hull

East Yorkshire

HU1 3RE

BANKERS

National Westminster Bank Plc

PO Box 76

19 Silver Street

Hull

HU1 1JJ

AUDITORS

Deloitte & Touche LLP

Leeds

KINGSTON NETWORK HOLDINGS LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the financial statements for the year ended 31 March 2005. Audited accounts were not presented in the prior year.

RESULTS AND DIVIDENDS

The company has made a profit of £62,502,424 (2004 - £Nil) on the disposal of its fixed asset investments. The directors do not recommend the payment of a dividend (2004 - £Nil).

The only transactions in the year relate to the disposal of the company's investment in Kingston TLI Limited and the transfer of its investment in Affiniti Integrated Solutions Limited (formerly known as Torch Communications Limited) to Kingston Services Holdings Limited.

The company increased its authorised share capital by 38,000,000 £1 ordinary shares on 31 March 2004 and issued these shares on the same day. This transaction was not accounted for in the statutory accounts for the year ended 31 March 2004 and as such the comparatives have been restated to reflect this error.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is that of an intermediate holding company.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and to the date of signing the accounts are listed on page 1. Mr P Simpson was appointed director on 18 April 2005.

According to the register maintained as required under the Companies Act 1985 none of the directors had any interests in the share capital of the company. At 31 March 2005, Mr M J Fallen was also director of the ultimate parent company, Kingston Communications (HULL) PLC, in whose accounts his interests are shown.

AUDITORS

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP will be the auditor of the company for the forthcoming financial year under the provisions of section 386(2) of the Companies Act 1985.

Approved by the Director



M J Fallen

Director

27 July 2005

KINGSTON NETWORK HOLDINGS LIMITED

STATEMENT OF 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 as at the end of the financial year 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; 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 the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KINGSTON NETWORK HOLDINGS LIMITED

We have audited the financial statements of Kingston Network Holdings Limited for the year ended 31 March 2005, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 11. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the director's report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit 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.

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 the company's affairs as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

28 July 2005

KINGSTON NETWORK HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 March 2005

	Note	2005 £	2004 £
TURNOVER		-	-
Operating costs		-	-
		<hr/>	<hr/>
OPERATING PROFIT		-	-
Profit on sale of fixed asset investments (net)	2	62,502,424	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		62,502,424	-
Taxation	3	-	-
		<hr/>	<hr/>
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>62,502,424</u>	<u>-</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 March 2005

There were no recognised gains and losses other than the result for either year.

KINGSTON NETWORK HOLDINGS LIMITED

BALANCE SHEET 31 March 2005

	Note	2005 £	2004 (as restated see note 9) £
FIXED ASSETS			
Investments	4	2	61,218,344
CURRENT ASSETS			
Amounts due from group undertakings	5	121,720,768	-
TOTAL ASSETS LESS CURRENT LIABILITIES		121,720,770	61,218,344
CREDITORS: amounts falling due after more than one year	6	-	(1,999,998)
NET ASSETS		121,720,770	59,218,346
CAPITAL AND RESERVES			
Called up share capital	7	59,218,346	59,218,346
Profit and loss account	8	62,502,424	-
EQUITY SHAREHOLDERS' FUNDS		121,720,770	59,218,346

These financial statements were approved by the Director on 27 July 2005.


M. Ballen

Director

KINGSTON NETWORK HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2005

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the current and prior years.

Basis of preparation

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

As at 31 March 2005, the company was a subsidiary undertaking where 90% or more of the voting rights were controlled within the Kingston Communications (HULL) PLC group and was included in the consolidated financial statements of that group, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Kingston Communications (HULL) PLC group or investees of that group.

Further, the company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985 because its immediate parent undertaking is incorporated within the European Union.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2. PROFIT ON SALE OF FIXED ASSET INVESTMENTS (NET)

The company sold its investment in Kingston TLI Limited on 28 April 2004 and received aggregate consideration of £34,000,000 for the shares and settlement of the amount due to the company. The loss on disposal was £6,289,234.

The company transferred its investment in Affiniti Integrated Solutions Limited (formerly known as Torch Communications Limited) on 31 March 2005 for a consideration of £130,000,000. The profit on sale of this fixed asset investment was £68,791,658.

KINGSTON NETWORK HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2005

3. TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of tax credit in the year:

The credit based on the loss for the year comprises:

	2005 £	2004 £
Current tax		
Receipt for group relief:	-	-
- credit for the year on ordinary activities	-	-
	<hr/>	<hr/>
	<hr/>	<hr/>
Tax on loss on ordinary activities	-	-
	<hr/>	<hr/>

Factors affecting the tax credit in the year:

	2005 £	2004 £
Profit on ordinary activities before tax	62,502,424	-
	<hr/>	<hr/>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2004 - 30%)	18,750,727	-
	<hr/>	<hr/>
Effects of:		
Non taxable sale of fixed asset investment (net)	(18,750,727)	-
	<hr/>	<hr/>
Total current tax	-	-
	<hr/>	<hr/>

4. INVESTMENTS

	Shares in subsidiary undertak- ings £
Cost and net book value	
At 1 April 2004	61,218,344
Disposal	(10,000)
Transferred to other group undertaking	(61,208,342)
	<hr/>
At 31 March 2005	2
	<hr/>

Subsidiary undertakings

Details of the principal subsidiary undertakings at the year end were as follows:

Name of company	Nature of business
Kingston Communications Limited	Telecommunications services
Kingston Interactive Television Limited (indirectly held)	Dormant
Kingston Vision Limited (indirectly held)	Dormant

All of the subsidiaries are registered in England & Wales. In the opinion of the Directors the value of the investments is not less than cost.

KINGSTON NETWORK HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2005

5. DEBTORS

	2005 £	2004 £
Amounts due from group undertakings	121,720,768	-

6. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £	2004 (as restated see note 9) £
Amounts due to group undertakings	-	1,999,998

There are no formal arrangements for the repayment of amounts due to the ultimate parent company. The ultimate parent company has, however, confirmed that repayment of this balance will not be required within one year.

7. CALLED UP EQUITY SHARE CAPITAL

	2005 £	2004 (as restated see note 9) £
Authorised		
59,250,000 Ordinary shares of £1 each	59,250,000	59,250,000
Allotted, called up and fully paid		
59,218,346 Ordinary shares of £1 each	59,218,346	59,218,346

8. RESERVES

	Share capital £	Profit and loss account £	Total equity share- holders' funds £
At 1 April 2004 as previously reported	21,218,346	-	21,218,346
Prior year adjustment – issue of share capital	38,000,000	-	38,000,000
At 1 April 2004 as restated	59,218,346	-	59,218,346
Profit for the financial year	-	62,502,424	62,502,424
At 31 March 2005	59,218,346	62,502,424	121,720,770

KINGSTON NETWORK HOLDINGS LIMITED

NOTES TO THE ACCOUNTS Year ended 31 March 2005

9. PRIOR YEAR ADJUSTMENT

The company increased its authorised share capital by 38,000,000 £1 ordinary shares on 31 March 2004 and issued these shares on the same day. The ordinary shares were issued to fund the working capital of the company. This transaction was not accounted for in the statutory accounts for the year ended 31 March 2004 and as such the comparatives have been restated to reflect this error.

The comparative figures have been reflected to restate this error and the effect is summarised below:

Balance Sheet	£
Increase in share capital	38,000,000
Decrease in amounts due to group undertakings	(38,000,000)
	<hr/>
Change in net assets	-
	<hr/>

10. GUARANTEES AND FINANCIAL COMMITMENTS

The Group loan facilities are secured by guarantees given by all material subsidiaries of Kingston Communications (HULL) PLC, including Kingston Network Holdings Limited, in favour of the banks. At 31 March 2005 the amount drawn down under these facilities was £194,443,000 (2004 – £102,000,000).

11. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The parent undertaking of the only group of undertakings for which group accounts are drawn up and of which the company is a member is Kingston Communications (HULL) PLC, registered in England and Wales. Kingston Communications (HULL) PLC is also the company's ultimate controlling party. Copies of Kingston Communications (HULL) PLC's accounts can be obtained from 37 Carr Lane, Hull, HU1 3RE.