



# **Annual Report 2006**

**ACN European Services Limited**  
**Registered number: 03650246**



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## Company Information

<b>Legal Name</b>	ACN European Services Limited
<b>Founded</b>	9 October 1998
<b>Registered Country</b>	United Kingdom
<b>Type of Business</b>	Telecommunications
<b>Legal Form</b>	Limited Company
<b>Jurisdiction</b>	United Kingdom
<b>Registration Number</b>	03650246
<b>VAT Number</b>	GB 726 3625 33
<b>Parent Company</b>	ACN International Inc
<b>Ownership</b>	100%
<b>Registered Address</b>	ACN European Services Limited Tower 42, 25 <sup>th</sup> Floor 25 Old Broad Street London EC2N 1HQ United Kingdom
<b>Board of Directors</b>	D Merriman (US) C F Barker (US)
<b>Auditors</b>	Deloitte & Touche LLP London United Kingdom
<b>Solicitors</b>	Squire, Sanders & Dempsey Tower 42, 25 <sup>th</sup> Floor 25 Old Broad Street London EC2N 1HQ United Kingdom



## **Directors' Report**

The Directors present their report and the audited financial statements of ACN European Services Limited ("the Company") for the financial year ended 31 December 2006

### **Principal Activity, Business Review and Future Developments**

The Company is an 100% owned subsidiary of ACN International, Inc. The Company is a related company of ACN Europe B V ("ACN Europe"). ACN Europe is located in Amsterdam, the Netherlands. The Company, ACN International, Inc. and ACN Europe are all under the common control of ACN Global Holdings, Inc., a US based company with its principal office in Charlotte, North Carolina, USA.

The Company is considered for business, accounting and control purposes as part of the ACN Europe group of companies, with the European head office in Amsterdam, The Netherlands.

The Company operates in the telecommunications industry. The Company sells fixed telephony services to both private and business customers, using direct selling and network marketing principles as a sales concept. The Company has no employees, but it has entered into agreements with independent sales representatives, through who market and promote the services and make contact with prospective British telecom customers. The Company signs the agreements with the customers for telephony services.

The Company is a switchless reseller, it has no own telecommunication network but purchases telecom services from other operators and resells those services to its customers.

ACN Europe carries out or manages all administrative functions relating to the Company's activities, mostly from Amsterdam, The Netherlands where it operates a shared service centre, but also some smaller satellite shared service centres. Likewise all economic and business risk associated with the Company's activities are fully borne by ACN Europe. Under the terms of an inter-company services agreement between the Company and ACN Europe, all risks and rewards in respect of agreements concluded by the Company shall be borne by ACN Europe. The Company is fully dependent for the continuation of operations on ACN Europe.

During 2006, the Company introduced subscription/line rental services aimed at reducing churn of the Company's customer base.

### *Results and Dividends*

The Company had a profit of £22,423 after taxation (2005: £6,932). The Directors do not recommend payment of a dividend (2005: £nil).

### *Future Developments*

The Directors do not anticipate any material changes in the Company's affairs in the coming year.



### **Directors' Interests**

The Directors who served during the year and at the date of this annual report were as follows

D Merriman  
C Barker

None of the Directors held a beneficial interest in the shares of the Company at 31 December 2006 or at any time during the year

The Directors had no interests in the shares of any other body corporate in the Company or any group company of the Company that are required to be disclosed under Section 324 of the Companies Act 1985 as amended from time to time

### **Creditors**

The company aims to make payment under agreed contract terms. During the year average payment was made approximately 47 days (2005- approximately 46 days)

### **Statement of Directors' Responsibilities**

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial period 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, as amended from time to time. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

A resolution to appoint Deloitte & Touche LLP as auditors to the Company will be proposed at the annual general meeting.



By Order of the Board

A handwritten signature in black ink, appearing to read 'D Merriman', written over a horizontal line.

D Merriman

31 January 2008



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ACN EUROPEAN SERVICES LIMITED**

We have audited the financial statements of the Company for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes 1 to 10. 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, as amended from time to time. 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 Board of Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (i.e. United Kingdom Generally Accepted Accounting Practice).

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

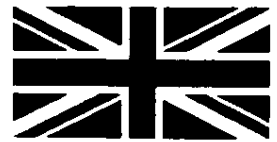
We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We have read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### **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 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



### **Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended, and
- 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.

A handwritten signature in black ink, appearing to read 'Deloitte &amp; Touche LLP'.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London

A handwritten date in black ink, reading '27 February 2008'.



## Profit and Loss Account for the year ended 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
Turnover	1	2,348,657	3,145,032
Cost of sales		-1,224,355	-1,512,345
<b>Gross Profit</b>		<b>1,124,302</b>	<b>1,632,687</b>
Administrative expenses	2	1,105,677	1,629,302
<b>Operating (loss)/profit</b>		<b>18,625</b>	<b>3,385</b>
Interest receivable and similar income		3,798	3,547
<b>Profit on ordinary activities before taxation</b>		<b>22,423</b>	<b>6,932</b>
Tax on profit on ordinary activities	3	-	-
<b>Profit on ordinary activities after taxation and for the financial year</b>		<b>22,423</b>	<b>6,932</b>

All operations are continuing


There are no recognised gains or losses for the financial year other than those already dealt with in the profit and loss account hence no statement of recognised gains and losses is presented



## Balance Sheet as at 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>£</b>	<b>2005</b> <b>£</b>
<b>Current assets</b>			
Debtors	4	5,174,103	4,062,102
Cash at bank and in hand		306,119	69,671
		5,480,222	4,131,773
<b>Creditors: amounts falling due within one year</b>	5	<b>-10,455,337</b>	<b>-9,129,311</b>
<b>Net current liabilities</b>		<b>-4,975,115</b>	<b>-4,997,538</b>
<b>Net liabilities</b>		<b>-4,975,115</b>	<b>-4,997,538</b>
<b>Capital and reserves</b>			
Called up share capital	6	1,000	1,000
Profit and loss account	7	-4,976,115	-4,998,538
<b>Equity shareholders' deficit</b>		<b>-4,975,115</b>	<b>-4,997,538</b>

The financial statements set out herein were approved by the Board of Directors on 5 August 2007 and were signed on behalf of the Board

  
 D Merriman  
 Director

31 January 2008



## **Accounting Policies and Notes to the Financial Statements for the year ended 31 December 2006**

### **Accounting Policies**

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985. The accounting policies have been applied consistently in the current and preceding year.

#### **Profit and loss account**

Turnover represents amounts billed to customers for services provided, excluding VAT and trade discounts. In the current year all revenues and costs are also reported in the financial statements of ACN Europe in accordance with the terms of the intercompany services agreement between the Company and ACN Europe. For clarification, the initial fees and yearly renewal fees paid by the Company's independent sales representatives to the Company act as a subscription for services that the independent sales representatives receive from the Company over a twelve month period, and so according to this principle, the Company spreads this distributor revenue over the period in which the services are supplied to the independent sales representatives. The independent sales representatives can also be customers of the Company.

#### **Cash flow statement**

The Company has not prepared a cash flow statement following the revision of FRS 1 on the basis that ACN Europe produces consolidated accounts, which include a cash flow statement, into which the Company's accounts are fully consolidated.

#### **Foreign exchange**

Monetary assets and liabilities denominated in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated at the rates prevailing on the dates of the transactions. Resulting differences on translation are charged or credited to the profit and loss account.

#### **Taxation**

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred taxation is not provided on timing differences arising from revaluation of fixed assets where there is no commitment to sell the asset. Deferred taxation assets are recognised to the extent that it is regarded, as more likely than not that they will be recovered. Deferred taxation assets and liabilities are not discounted.



## Notes to the financial statements

### 1. Turnover

Turnover	2006 £	2005 £
Telecom Revenue	2,224,257	2,989,853
Distributor Revenue	124,400	155,179
	<b>2,348,657</b>	<b>3,145,032</b>

### 2. Administrative expenses

Administrative expenses	2006 £	2005 £
Distribution and administrative	1,729,938	538,135
Group charges	-622,775	1,093,413
Exchange (gain)/Loss	-1,486	-2,246
	<b>1,105,677</b>	<b>1,629,302</b>

During the financial year, group charges were allocated to the Company in respect of staff costs, billing and provisioning services, information technology services and general overhead expenditure

### 3. Tax on profit on ordinary activities

Tax on profit on ordinary activities	2006 £	2005 £
Current tax Charge	-	-
Profit on ordinary activities before tax	22,423	6,932
	-	-
Tax on profit on profit on ordinary activities at standard UK corporation tax rate of 30 % (2005-30%)	6,727	2,080
	-	-
Utilisation of tax losses	-6,727	-2,080
	-	-
Current tax Charge	-	-

The tax assessed for the current financial year is equal to the standard rate of corporation tax (19%)

Due to an ongoing discussion with the Inland Revenue regarding the tax losses carried forward, the Company accounted for a charge in 2004. Based on recent discussions with the Inland



Revenue, we believe that the position regarding tax losses carried forward remains applicable and therefore no tax charge for 2005 and 2006 has been taken into account. As per ultimo 2005 the tax loss carry forward position amounted to GBP 4,960,193, which would be GBP 4,937,770 per ultimo 2006. Because the discussion has yet to be resolved, no tax asset has been taken into account.

#### 4. Debtors

Debtors	2006 £	2005 £
Trade debtors	270,598	532,936
Amounts owed by group undertaking	4,903,505	3,529,166
	<b>5,174,103</b>	<b>4,062,102</b>

#### 5. Creditors

Creditors	2006 £	2005 £
Trade creditors	421,709	392,292
Amounts owed to group undertaking	9,729,935	8,611,307
Other taxation and social security	29,545	36,575
Accruals and deferred income	274,148	89,137
	<b>10,455,337</b>	<b>9,129,311</b>

#### 6. Share capital

Share capital	2006 £	2005 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	1,000	1,000



## 7. Reserves

Reserves	2006 £	2005 £
At 1 January	-4,998,538	-5,005,471
Profit for the year	22,423	6,933
At 31 December	-4,976,115	-4,998,538

## 8. Related party transactions

As a wholly owned subsidiary of ACN International Inc and indirectly ACN, Inc, the Company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by ACN Global Holdings, Inc

There is an inter-company services agreement in place between the Company and ACN Europe, such that the risk of any liability incurred by the Company will be borne by ACN Europe. ACN Europe is liable for all risks related to the activities of the Company, which includes all existing and arising debt

## 9. Directors and employees

During the 2006 financial year, there were no employees of the Company (2005 nil). There was no remuneration paid by the Company to the Directors in both the current and prior year

## 10. Ultimate parent undertaking and controlling party

The Directors consider the ultimate parent undertaking and the ultimate controlling party of the Company is ACN Global Holdings, Inc, a company incorporated in Delaware, USA, which is the ultimate parent of all of the companies in the ACN global group of undertakings for which group accounts have been drawn up

ACN Europe, a company incorporated in The Netherlands, is part of that global group of undertakings and acts as the parent company of the ACN European operations and in doing so effectively exercises control over the operations of the Company and given that fact that it consolidates the accounts of the Company into its own consolidated accounts

Copies of the group financial statements for ACN Global Holdings, Inc and ACN Europe may be made available from 32991 Hamilton Court, Farmington Hills, Michigan 48334, USA and Adam Smith Building, Thomas R Malthusstraat 1-3, 1066 JR Amsterdam, The Netherlands, respectively