

# Annual Report 2008

**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 LLP Cambridge 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 2008. This Directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4) of the Companies Act 1985.

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

The Company is a 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 LKN Global Holdings Inc., a US based company with its principal office in Concord, 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. From 1 January 2002 the Company has been acting as an agent for ACN Europe B.V., which is its undisclosed principal. 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, who market and promote the services and make contact with prospective UK telecommunications customers. The Company signs the agreements with the customers for telephony services.

The Company is a switchless reseller. It has none of its 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 risks 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. ACN Europe B.V. reimburses the Company for all local expenses incurred. The Company is fully dependent for the continuation of operations on ACN Europe.

### ***Results and Dividends***

The Company had a profit of £820 after taxation (2007: £21,216). The Directors do not recommend payment of a dividend (2007: £nil).

### *Future Developments*

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

### **Directors**

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

D Merriman  
C Barker

### **Creditors**

The company aims to make payment under agreed contract terms. During the year average payment was made after approximately 65 days (2007- approximately 48 days).

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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;
- 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 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


In the case of each of the persons who are directors at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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

By Order of the Board

  
D. Merriman

21 September 2009

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

We have audited the financial statements of ACN European Services Limited. for the year ended 31 December 2008 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. 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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.

*Deloitte LLP*

**Deloitte LLP**

Chartered Accountants and Registered Auditors  
Cambridge, UK

*15 Dec 2009*



## Profit and Loss Account for the year ended 31 December 2008

	<i>Notes</i>	<b>2008</b>	<b>2007</b>
		<b>£</b>	<b>£</b>
Turnover	1	1,404,669	1,882,290
Cost of sales		(736,361)	(958,035)
<b>Gross Profit</b>		<b>668,308</b>	<b>924,255</b>
Administrative expenses	2	(661,727)	(909,391)
<b>Operating profit</b>	2	<b>6,581</b>	<b>14,864</b>
Interest payable and similar charges		(6,485)	
Interest receivable and similar income		724	6,352
<b>Profit on ordinary activities before taxation</b>		<b>820</b>	<b>21,216</b>
Tax on profit on ordinary activities	3	-	-
<b>Profit on ordinary activities after taxation and for the financial year</b>	7	<b>820</b>	<b>21,216</b>

All operations are continuing.

There are no recognised gains or losses for the current and preceding financial years other than those already dealt with in the profit and loss account. Hence no statement of recognised gains and losses is presented.

Registered Number  
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## Balance Sheet as at 31 December 2008

	Notes	2008	2007
		£	£
<b>Current assets</b>			
Debtors	4	253,679	347,252
Cash at bank and in hand		156,809	116,682
		410,488	463,934
<b>Creditors: amounts falling due within one year</b>	5	(5,363,567)	(5,417,833)
<b>Net current liabilities</b>		(4,953,079)	(4,953,899)
<b>Net liabilities</b>		(4,953,079)	(4,953,899)
<b>Capital and reserves</b>			
Called up share capital	6	1,000	1,000
Profit and loss account	7	(4,954,079)	(4,954,899)
<b>Shareholders' deficit</b>		(4,953,079)	(4,953,899)

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



D. Merriman  
Director

21 September 2009

# **Accounting Policies and Notes to the Financial Statements for the year ended 31 December 2008**

## **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.

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 4 to 6. The company meets its day to day working capital requirements through the transfer pricing agreement in place with other group companies. As disclosed in note 5 the company has a considerable creditor due to other group companies. The entities to whom the company is indebted have confirmed that, despite the loan balances having no fixed date for repayment, they will not call them for repayment for a period of at least 12 months from the date of approval of the financial statements.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **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. All turnover arose in the UK.

### **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**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively 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 to the extent that, 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 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.

## Notes to the financial statements

### 1. Turnover

Turnover	2008	2007
	£	£
Telecom Revenue	1,312,067	1,799,204
Distributor Revenue	92,602	83,086
	<b>1,404,669</b>	<b>1,882,290</b>

### 2. Administrative expenses and operating profit

Administrative expenses	2008	2007
	£	£
Distribution and administrative	268,686	1,035,912
Group charges	415,304	(122,251)
Exchange gain	(22,263)	(4,270)
	<b>661,727</b>	<b>909,391</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. Remuneration to Deloitte LLP and affiliated companies for the audit in 2008 amounts to £8,934 excl. VAT. (2007: £8,400).

### 3. Tax on profit on ordinary activities

Tax on profit on ordinary activities	2008	2007
	£	£
Current tax Charge	-	-
Profit on ordinary activities before tax	820	21,216
Tax on profit on ordinary activities at standard UK corporation tax rate of 28 % (2007-30%)	230	6,365
Utilisation of tax losses	(230)	(6,365)
Current tax Charge	-	-

The tax assessed for the current financial year is equal to the standard rate of corporation tax (28%). The Company has trading losses available to carry forward against future taxable profits of £4.92m (2007: £4.92m). The associated deferred tax asset of £1.38m (2007: £1.47m) remains unprovided due to the uncertainty over future suitable taxable profits.

#### 4. Debtors

Debtors (all due within one year)	2008	2007
	£	£
Trade debtors	253,455	271,683
Amounts owed by group undertaking	224	75,569
	253,679	347,252

#### 5. Creditors

Creditors	2008	2007
	£	£
Trade creditors	279,123	406,265
Amounts owed to group undertaking	4,867,608	4,746,523
Other taxation and social security	51,382	216,906
Accruals and deferred income	165,454	48,139
	5,363,567	5,417,833

#### 6. Share capital

Share capital	2008	2007
	£	£
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	2008	2007
	£	£
Profit and loss account		
At 1 January	(4,954,899)	(4,976,115)
Profit for the year	820	21,216
At 31 December	(4,954,079)	(4,954,899)

## **8. Related party transactions**

As a wholly owned subsidiary of ACN International Inc. and indirectly LKN Global Holdings Inc. the Company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by LKN 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 2008 financial year, there were no employees of the Company (2007: 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 LKN Global Holdings Inc., a company incorporated in Delaware, USA, which is the ultimate parent of the 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 LKN Global Holdings Inc. and ACN Europe maybe made available from 1000 Progress Place, Concord, North Carolina 28025, USA and Adam Smith Building, Thomas R. Malthusstraat 1-3, 1066 JR Amsterdam, The Netherlands, respectively.