

CO. 1259

EMTELLE UK LIMITED
formerly
MAINETTI TECHNOLOGY LIMITED
Registered Number SC079486

Directors' Report and Financial Statements

For the year ended 31 December 2000

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EMTELLE UK LIMITED
formerly
MAINETTI TECHNOLOGY LIMITED

Directors' Report and Financial Statements

For the year ended 31 December 2000

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Directors

N Melville
G Brown
S King (appointed 12 January 2001)
B Gajos (appointed 12 January 2001)

Secretaries

Wm Brown (Registrars) Limited

Auditors

Scott-Moncrieff

Bankers

HSBC Bank plc

Solicitors

Eversheds

Registered office

Haughhead
Hawick
TD9 8LF

EMTELLE UK LIMITED
formerly
MAINETTI TECHNOLOGY LIMITED

Directors' Report

For the year ended 31 December 2000

The directors submit their annual report and the audited financial statements for the year ended 31 December 2000.

Results and dividends

The results and dividends for the year are as follows:

	2000	1999
	£	£
Profit for the year after taxation	2,579,089	1,345,497
Dividends	(1,450,000)	(9,858,602)
Transferred to reserves	1,129,089	(8,513,105)

During the year a dividend of £1,450,000 was paid to the company's parent Emtelle Holdings Limited.

Principal activities

The company's principal activity is the manufacture of plastic tubing and ducting for the telecommunications industry.

Review of the business

As predicted last year, rapid expansion of the business took place in 2000, with turnover nearly double that of 1999. Two additional sites were opened, in Northern Ireland and in the Netherlands. This growth has produced a significant improvement in the level of profit.

During the year an outbreak of Legionnaire's Disease affected three employees at a neighbouring plant. A possible source of the Legionella was identified as the company's water cooling system. The system was closed immediately and outside expert advice enlisted to advise on future preventative measures. The Health & Safety Executive are still investigating the incident and any possible action against the company is as yet unknown.

In 2 April 2001 the Company changed its name to Emtelle UK Ltd. This will emphasise the Company's focus in the market sector and will distinguish the Company from other Mainetti companies operating as separate businesses in other markets.

The Directors acknowledge the contribution of its employees in the continued growth and development of the Company.

Fixed assets

Changes in fixed assets are detailed in note 8.

Directors and their interests

The directors during the year were as follows:

N Melville
G Brown

No director had an interest in the company's share capital at the year end (1999 - nil).

The directors retire by rotation and, being eligible, offer themselves for re-election.

No director had a material interest in any contract of significance in relation to the company's business during or at the end of the year.

EMTELLE UK LIMITED
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Directors' Report - continued

For the year ended 31 December 2000

Employees

A system of regular consultative meetings exists to ensure that the company's employees are kept adequately informed on all matters regarding the current and future prospects of the company's business. It is company policy to offer the same opportunity to disabled people as to all others in matters of recruitment and career advancement, provided that they have the ability to perform the tasks required with or without training, and to institute re-training where practicable in cases where the disability was incurred during their employment with the company.

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;
- 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

A resolution to re-appoint Scott-Moncrieff, Chartered Accountants as auditors will be put to the members at the annual general meeting.

By order of the board



Wm Brown (Registrars) Limited
Secretaries

16th July 2001

EMTELLE UK LIMITED
formerly
MAINETTI TECHNOLOGY LIMITED

Auditors' Report to the Members

For the year ended 31 December 2000

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Scott-Moncrieff

SCOTT-MONCRIEFF
Chartered Accountants
Registered Auditor
17 Melville Street
Edinburgh
EH3 7PH

16 July 2001

EMTELLE UK LIMITED
formerly
MAINETTI TECHNOLOGY LIMITED

Profit and Loss Account

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Turnover	2	46,024,170	23,440,598
Cost of sales		(35,454,782)	(17,193,974)
Gross profit		10,569,388	6,246,624
Distribution costs		2,755,281	1,624,469
Administration expenses		3,817,180	2,668,367
		(6,572,461)	(4,292,836)
Operating profit	4	3,996,927	1,953,788
Interest receivable		19,283	191,247
Interest payable	5	(227,516)	(215,276)
		(208,233)	(24,029)
Profit on ordinary activities before taxation		3,788,694	1,929,759
Tax on profit on ordinary activities	6	(1,209,605)	(584,262)
Profit on ordinary activities after taxation		2,579,089	1,345,497
Dividends	7	(1,450,000)	(9,858,602)
Retained profit/(loss) for the financial year		<u>1,129,089</u>	<u>(8,513,105)</u>

The company has no recognised gains and losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities for the year stated above and its historical cost equivalent.

The notes on pages 7 to 16 form part of these financial statements

EMTELLE UK LIMITED
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Balance Sheet

As at 31 December 2000

	Notes	2000	1999
		£	£
Fixed assets			
Tangible assets	8	9,939,346	6,525,322
Investments	9	10,000	10,000
Current assets			
Stocks	10	5,105,929	2,381,929
Debtors	11	11,137,671	6,416,992
Cash at bank and in hand		2,710	172
		16,246,310	8,799,093
Creditors: Amounts falling due within one year	12	(12,804,902)	(4,577,529)
Deferred income	15	(3,409,849)	-
Net current assets		31,559	4,221,564
Total assets less current liabilities		9,980,905	10,756,886
Creditors: Amounts falling due in more than one year			
Bank loan	13	2,488,116	1,125,500
Hire purchase contracts and finance leases	14	455,842	572,437
Deferred income	15	-	3,412,725
		(2,943,958)	(5,110,662)
Provisions for liabilities and charges			
Capital grants	16	(1,318,662)	(1,379,065)
Deferred taxation	17	(458,357)	(136,320)
		(1,777,019)	(1,515,385)
		5,259,928	4,130,839
Capital and reserves			
Equity share capital		1,254,489	1,254,489
Profit and loss account		4,005,439	2,876,350
Equity Shareholders' Funds	18	5,259,928	4,130,839

The financial statements were approved by the directors on *16 July* 2001.

 Director
N Melville

The notes on pages 7 to 16 form part of these financial statements

EMTELLE UK LIMITED
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Cash Flow Statement

For the year ended 31 December 2000

	Notes	£	2000 £	£	1999 £
Net cash inflow from operating activities	19		3,151,405		11,361,547
Returns on investments and servicing of finance					
Interest received		19,283		191,247	
Interest paid		(194,054)		(228,054)	
			(174,771)		(36,807)
Taxation					
Corporation tax paid			(864,690)		(375,459)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(4,660,473)		(1,645,604)	
Sale of tangible fixed assets		306,000		17,000	
			(4,354,473)		(1,628,604)
Equity dividends paid			(1,450,000)		(9,858,602)
Cash outflow before use of liquid resources and financing			(3,692,529)		(537,925)
Financing					
Capital element of finance lease payments			(101,605)		(117,658)
New term loans			2,739,622		500,000
Repayment of term loan			(412,344)		(160,500)
Issue of shares			-		1,204,489
(Decrease)/Increase in cash in the year			(1,466,856)		888,406
Reconciliation of net cashflow to movement in net debt					
(Decrease)/Increase in cash in the year			(1,466,856)		888,406
Cash inflow from increase in debt and lease financing			(2,225,673)		(221,842)
Change in net debt from cashflows			(3,692,529)		666,564
New finance leases			-		(192,242)
Net debt at 1 January 2000			(2,925,315)		(3,399,637)
Net debt at 31 December 2000	20		(6,617,844)		(2,925,315)

The notes on pages 7 to 16 form part of these financial statements

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EMTELLE UK LIMITED
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Notes to the Financial Statements

For the year ended 31 December 2000

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below. These policies have been applied consistently.

Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting.

Depreciation

Depreciation is provided on all fixed assets at rates calculated to write off the cost or valuation, less estimated residual value of each asset, evenly over its expected useful life as follows:

Buildings	25 years
Plant and machinery	3 - 10 years
Motor vehicles	4 and 5 years
Furniture and fittings	5 and 10 years

No depreciation is provided on freehold land.

Stocks

Stocks are valued at the lower of cost and net realisable value in the ordinary course of business, as follows:

Raw materials and consumable stores	- purchase cost
Work in progress, finished goods	- cost of direct materials, labour, plus all production overheads and the appropriate proportion of indirect overhead expenses

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Government grants

Grants of a revenue nature are credited to the profit and loss account in the year in which they accrue.

Capital grants are released to the profit and loss account over the expected useful life of the assets to which they relate.

Research and development

Research and development expenditure is written off as incurred.

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the leases in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to the profit and loss account as they are incurred.

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

1. Accounting policies - continued

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies during the year are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided on the liability method unless there is reasonable probability that such liability will not arise within three years of the end of the financial year.

2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

Turnover and pre-tax profit are attributable to the company's principal activities.

The analysis of turnover by geographical area is as follows:

	2000	1999
	£	£
United Kingdom	40,305,180	21,503,058
Rest of Europe	4,916,136	1,456,332
Rest of World	802,854	481,208
	46,024,170	23,440,598

3. Staff numbers and costs

The average monthly number of employees of the company during year including directors, was:

	2000	1999
	Number	Number
Office and Management	25	20
Manufacturing	135	88
Sales and distribution	17	14
	177	122

The aggregate remuneration and associated costs of the company's employees were:

	2000	1999
	£	£
Wages and salaries	3,774,687	2,436,783
Social security costs	283,030	181,827
Pension costs	244,119	204,921
	4,301,836	2,823,531

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

3. Staff numbers and costs (continued)	2000	1999
Directors emoluments	£	£
Emoluments	223,364	140,748
Pension scheme contributions	8,678	9,050
	<u>232,042</u>	<u>149,798</u>

Retirement benefits

Retirement benefits are accruing to 1 director under defined benefit schemes at 31 December 2000.

Highest paid director	£	£
Emoluments	145,306	97,247
Pension scheme contributions	8,678	9,050
	<u>153,984</u>	<u>106,297</u>

The highest paid director is a member of a defined benefit scheme, under which his accrued pension at the year end is £42,570.

4. Operating profit	2000	1999
	£	£
The operating profit is stated after charging/(crediting):		
Auditors' remuneration	18,720	11,500
Fees paid to auditors for other services	46,855	6,785
Depreciation of owned assets	989,653	751,736
Depreciation of assets held under finance leases and hire purchase contracts	186,796	118,323
Exchange loss/(gains) on foreign currencies	11,026	(1,142)
Rental of buildings - operating leases	140,741	69,952
Hire of plant and machinery – rentals payable under operating leases	95,986	9,756
Gain on sale of Aquaforce technology	(235,000)	-
	<u></u>	<u></u>

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

5.	Interest payable	2000	1999
		£	£
	Interest on bank overdraft	53,305	29,441
	Interest on group and other loans	131,914	141,635
	Interest on finance leases and hire purchase contracts	42,297	44,200
		<u>227,516</u>	<u>215,276</u>
6.	Tax on profit on ordinary activities	2000	1999
		£	£
	UK corporation tax on profit for the year @ 30% (1999 - 30%)	906,091	531,110
	Adjustment in respect of previous years	(18,523)	(18,310)
	Transfer to deferred taxation	322,037	71,462
		<u>1,209,605</u>	<u>584,262</u>
7.	Dividends	2000	1999
		£	£
	Interim dividend of £1.156 per share	1,450,000	9,858,602
		<u>1,450,000</u>	<u>9,858,602</u>

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

8. Tangible assets	Land £	Buildings £	Plant & machinery £	Motor vehicles £	Furniture & fittings £	Total £
<i>Cost</i>						
At 1 January 2000	53,394	3,420,236	9,080,555	210,868	261,566	13,026,619
Additions during year	-	169,597	4,386,147	-	104,729	4,660,473
Disposals	-	-	(72,295)	-	-	(72,295)
At 31 December 2000	53,394	3,589,833	13,394,407	210,868	366,295	17,614,797
<i>Depreciation</i>						
At 1 January 2000	-	140,129	6,133,065	130,172	97,931	6,501,297
Provided for year	-	138,891	941,571	38,691	57,296	1,176,449
Disposals	-	-	(2,295)	-	-	(2,295)
At 31 December 2000	-	279,020	7,072,341	168,863	155,227	7,675,451
<i>Net book value</i>						
At 31 December 2000	53,394	3,310,813	6,322,066	42,005	211,068	9,939,346
At 31 December 1999	53,394	3,280,107	2,947,490	80,696	163,635	6,525,322

Included within fixed assets are assets held under finance leases and hire purchase agreements with a net book value of £488,652(1999: £687,117). Depreciation charged on these assets during the year was £186,796(1999: £118,323).

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

9.	Investments	2000	1999
		£	£
	Cost at 31 December 2000	10,000	10,000
The company holds 33% of the ordinary share capital of Advanced Ducting Systems Limited, a company registered in Scotland. The principal activity of Advanced Ducting Systems Limited is that of selling and distribution of plastic extruded products.			
10.	Stocks	2000	1999
		£	£
	Raw materials and consumable stores	2,410,756	1,018,243
	Work-in-progress	277,083	51,518
	Finished goods and goods for resale	2,418,090	1,312,168
		5,105,929	2,381,929
11.	Debtors	2000	1999
		£	£
	Trade debtors	10,601,286	3,882,447
	Amounts owed by group companies	921	11,953
	Other debtors	486,134	2,487,314
	Prepayments and accrued income	49,330	35,278
		11,137,671	6,416,992
12.	Creditors : Amounts falling due within one year	2000	1999
		£	£
	Bank overdraft	2,350,351	880,957
	Bank loan (note 13)	1,178,662	214,000
	Trade creditors	7,222,995	2,114,400
	Amounts owed to group companies	166,658	177,214
	Current corporation tax	323,499	381,110
	Other taxes and social security costs	566,318	205,139
	Other creditors	322,749	196,602
	Accruals	526,087	275,514
	Obligations under hire purchase contracts and finance leases (note 14)	147,583	132,593
		12,804,902	4,577,529

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

13. Loans

<i>HSBC Bank loan</i>	2000	1999
	£	£
Due within one year (note 12)	1,178,662	214,000
Due within two to five years	2,342,636	856,000
Due after five years	145,480	269,500
	<u>3,666,778</u>	<u>1,339,500</u>

The HSBC Bank loan bears interest at 1.15% above LIBOR, repayable at £53,500 a quarter commencing in May 2000.

During the year the company took out further loans with HSBC for £1,400,000 and took over the loan of Emtelle Holdings Limited of £589,662. The loans are repaid in monthly instalments of £43,280 commencing December 2000 and £18,550 commencing January 2001. Interest is payable at 1.15% above base rate. An additional loan of £750,000 was taken out with HSBC Asset Finance Limited in July 2000. The loan is repayable in monthly instalments of £31,250 and interest is payable at 1.15% above LIBOR.

14. Obligations under hire purchase contracts and finance leases	2000	1999
	£	£
Payable within one year (note 12)	147,583	132,593
Payable within two to five years	455,842	572,437
	<u>603,425</u>	<u>705,030</u>

15. Deferred income

Amounts relating to deferred income arose when Emtelle UK Limited entered into a long term supply agreement and received an advanced payment on this contract. The contract expires on 31 December 2001.

16. Capital grant	2000	1999
	£	£
Scottish Enterprise Borders grant	1,318,662	1,379,065
	<u>1,318,662</u>	<u>1,379,065</u>

A capital grant from Scottish Enterprise Borders has contributed to the construction costs of the new factory and headquarters at Haughhead, Hawick.

EMTELLE UK LIMITED f
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

17. Deferred taxation

There is a potential liability for deferred taxation based on a corporation tax rate of 30% which had arisen as follows:

	2000		1999	
	Potential Liability £	Amount Provided £	Potential Liability £	Amount Provided £
Accelerated capital allowances	458,357	458,357	136,320	136,320
Provision at 1 January		136,320		64,858
Increase in provision		322,037		71,462
Provision at 31 December		458,357		136,320

18. Equity share capital and reserves

	2000 £	1999 £
<i>Share capital</i>		
Authorised equity share capital - Ordinary £1 shares	5,000,000	5,000,000
Issued equity share capital - Ordinary £1 shares fully paid	1,254,489	1,254,489

Reconciliation of movements in equity shareholder's funds

	Called-up equity share capital £	Profit and loss account £	2000 Total £	1999 Total £
At 1 January	1,254,489	2,876,350	4,130,839	11,439,455
Profit on ordinary activities after taxation	-	2,579,089	2,579,089	1,345,497
Dividends	-	(1,450,000)	(1,450,000)	(9,858,602)
Issue of new shares	-	-	-	1,204,489
At 31 December	1,254,489	4,005,439	5,259,928	4,130,839

19. Reconciliation of operating profit to operating cash flows

	2000 £	1999 £
Operating profit	3,996,927	1,953,788
Depreciation	1,176,449	870,059
Gain on sale of tangible fixed assets	(236,000)	(3,953)
(Increase) in stocks	(2,724,000)	(413,699)
(Increase)/Decrease in debtors	(4,720,679)	6,844,584
Increase in creditors	5,658,708	2,110,768
	3,151,405	11,361,547

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

20. Analysis of net debt

	At 1 January 2000 £	Cashflow £	Other Changes £	At 31 December 2000 £
Cash in hand and at bank	172	2,538	-	2,710
Bank overdraft	(880,957)	(1,469,394)	-	(2,350,351)
	(880,785)	(1,466,856)	-	(2,347,641)
Debt due after one year	(1,125,500)	(2,739,622)	1,377,006	(2,488,116)
Debt due within one year	(214,000)	412,344	(1,377,006)	(1,178,662)
Finance leases	(705,030)	101,605	-	(603,425)
	(2,925,315)	(3,692,529)	-	(6,617,844)

21. Commitments and contingent liabilities

Security granted

A bond and floating charge covers all the heritable and moveable assets of the company. There is a fixed charge over the book debts. Scottish Enterprise Borders have a fixed charge over the factory at Haughhead, Hawick in respect of the grant contribution to this site.

Pension costs and commitments

The company participates in a group pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested in unit trusts. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 March 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investments yield would be 6% per annum, and salary and pension increases would average 4.75% and 5% respectively per annum.

The pension charge for the period is shown in note 3.

The most recent actuarial valuation showed that the market value of the scheme's assets was £17,132,728 and that the actuarial value of those assets represented 105% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees are 12% and 5% of earnings respectively.

Contributions accrued at the year end totalled £42,987 (1999 - contributions accrued £27,502).

EMTELLE UK LIMITED
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Notes to the Financial Statements - continued

For the year ended 31 December 2000

21. Commitments and contingent liabilities - continued

Capital commitments

Capital expenditure contracted for, but not provided in the financial statements, amounted to £1,927,000(1999 - £387,572) which relates to the construction of a factory extension. A grant of £733,000 is being provided by Scottish Enterprise Borders towards this cost.

Operating Lease Commitments

At the balance sheet date, the company had an annual commitment under an operating lease for office equipment and factory accommodation as follows:

		2000 £	1999 £
Operating lease which expires	- within one year	1,571	-
	- within two to five years	131,592	13,105

Guarantees

At the balance sheet date the company had issued a guarantee to HM Customs & Excise for the deferred payment of VAT for £ 50,000 (1999 - £50,000).

Contingent liability

As indicated in note 15 the company has entered into a long term supply agreement which terminates on 31 December 2001. To service this agreement Emtelle UK Ltd have themselves entered into a long term supply contract. If the volume supplied does not reach anticipated levels the deferred income will crystallise and Emtelle UK Limited will pay compensation under their long term supply contract for loss of anticipated profit. The maximum compensation payable is 1.8m Euros (£1.1 million).

22. Related party transactions

During the year the company sold £171,305 of goods to Advanced Ducting Systems Limited (note 9) and there was a balance due from this company of £110,144 at the year end. The directors, Mr G Brown and Mr S King are also directors in Advanced Ducting Systems Limited.

23. Holding company

Emtelle Holdings Limited (formerly Mainetti Technology Holdings Limited), incorporated in Scotland, is the immediate holding company. The directors recognise Mauna N.V., incorporated in the Netherlands Antilles, as the ultimate holding company.