

# **BNS Telecom Group plc**

## **Report and Financial Statements**

31 July 2009

**BNS Telecom Group plc is a reseller of fixed and mobile lines, minutes and data, traditional hardware, in addition to the latest IP telephony technology hardware, licenses and value added services**

## **2009 Highlights**

### **Financial Highlights**

- Agreement reached for the sale of the Group to Daisy Group plc
- £36.9 million revenue of which £29.7m is recurring, equal to 80.8%
- Group gross margin is up to 41.9% (2008: 36.7%)
- Significant growth in underlying EBITDA to £3.2 million (2008: £130k)
- Strong cash generation from continuing operations of £3.4 million (£2.4 million)
- Net borrowings falling from £4.3 million at 31 July 2008 to £2.5 million at 31 July 2009

### **Operational Highlights**

- Looking after 22,000 customer sites, 42,000 fixed lines and 16,000 mobile subscribers
- Currently terminating 17.6 million traditional and 5.3 million IP minutes per month (based on September 2009)
- Employing 219 people throughout the UK

Registered No. 5523489

**Registered and Head Office**

Telecom House  
Princess Way  
Low Prudhoe  
Northumberland  
NE42 6NJ

**Independent Auditors**

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle upon Tyne  
NE1 4JD

**Bankers**

Barclays Bank  
Percy Street  
Newcastle upon Tyne  
NE1 4QL

**Solicitors**

Muckle LLP  
Time Central  
32 Gallowgate  
Newcastle upon Tyne  
NE1 4BF

**Registrars**

Capita Registrars Limited  
Northern House  
Woodson Park  
Ferry Bridge  
Huddersfield  
HD8 0LA

# Business and Financial Review

## Overview

On 18 February 2010 the Board of BNS Telecom Group plc and the Board of Daisy Group plc announced the terms of a recommended cash offer for the entire issued and to be issued share capital of BNS Telecom Group plc. The offer document which contains a letter from the Chairman of BNS setting out the background to and reasons for recommending the offer, will shortly be posted to BNS shareholders.

During the financial year under review revenue growth, margin improvement and solid cash generation in the business allowed the Group to reduce its debt by £1.8million from £4.3 million to £2.5million.

The demand for telecommunication products and services continues to be robust despite the current trading environment. Enterprises are looking to reduce and more tightly manage their operational costs whilst also exploiting new digital technologies to improve efficiencies. BNS provides a broad range of related business critical telecommunication services within a single bundled package at very competitive prices. The Group's focus is on long term contractual relationships with potential up sales which provides a sound foundation to enhance revenue and profit potential per customer.

The use of IP calls and sending IP data over wireless, fixed and mobile networks is driving the move towards complete mobility for business communications. Convenience, low-cost and the collaborative potential of combining voice, data and other services across numerous devices means that seamless fixed-mobile convergence – at a network, application and service level – is now a reality.

## Trading and operating review

### *Revenue growth*

13.3% revenue growth in FY2009 was driven by the increasing take up of IP hardware and related bundled services. Sales of traditional and IP-based hardware and licenses are typically supplied to an end customer who enters into a leasing agreement with a finance company. The Group has also demonstrated that it has the balance sheet and cash flow capacity to provide its own financing solutions where necessary. This is reflected in a growing level of IP sales which have been financed internally during the year. These sales are accounted for as finance lease contracts giving rise to a finance lease receivable. The finance lease receivable at 31 July 2009 was £1.2 million (2008: £0.1 million).

### *Gross margin growth*

Gross margin improved from 33.4% for the year ended 31 July 2008 to 42.1% demonstrating the Group's ability to leverage strong supplier relations to negotiate improved wholesale rates, as well as the Group's robust approach to cost control.

### *EBITDA improvement*

Underlying EBITDA from continuing operations showed significant growth on the previous year up from £130,000 in the year ended 31 July 2008 to £3.2 million. This reflects the growth in higher margin IP revenues, lower wholesale rates and reductions in the cost base. Headcount has been lowered by 21 heads during the year ended 31 July 2009 which has created a more streamlined business, more focused routes to market and a solid platform for future growth.

### *Strong operating cash flow and reducing net debt position*

BNS generated strong operating cash flow of £3.4 million (2008: £2.4 million). After the final £0.2 million payment for the discontinued Network Services Division and the realisation of £0.2 million from the sale of part of the Group's fleet of motor vehicles, net borrowings were down from £4.3 million at 31 July 2008 to £2.5 million at 31 July 2009.

On 7 May 2009 the Group restructured its bank facilities with the revised terms comprising a term loan of £2.8 million and an overdraft facility of £1.0 million. These revised bank facilities provide the Group with adequate funding to meet the Group's current forecast requirements. The Group has incurred a considerable amount of fees in relation to the restructuring of this facility as reflected in the increase in net finance costs to £0.7 million (2008: £0.4 million). This amount includes bank related fees of £0.3 million which were in addition to £0.2 million charged to discontinued activities in 2008. In addition to these amounts, £0.3 million of potential further bank related fees and charges were incurred and charged to the income statement in 2010.

# Business and Financial Review

## Products

### *High proportion of recurring revenue*

The high levels of recurring revenue underpin the Group's financial performance and provide enhanced earnings visibility. 80.8% of Group revenue was recurring in the year ended 31 July 2009 (2008: 81.9%). At 31 July 2009 56.6% of existing customer contracts are 3-7 years in length at the time of inception.

Revenue by product is included below:

Revenue by product	2009 (£m)	2008 (£m)
Calls (traditional fixed line and IP)	8.6	8.3
Access (traditional fixed line and broadband)	9.5	8.7
Hardware, licenses and installation (traditional and IP)	7.9	3.6
Maintenance	0.6	0.5
Mobile	9.7	10.7
Other	0.6	0.8
<b>Total revenue</b>	<b>36.9</b>	<b>32.6</b>

## A resilient business model

In the context of a challenging economic environment a robust business model is especially important. The Board believes that the business has a number of resilient features which mitigate the risks associated with such uncertainty:

### ***Very Good Financial Performance***

The high levels of recurring revenue underpin the Group's financial performance. With a significant reduction in the Group's net borrowing position during the year the Group's revised capital structure provides a greater level of flexibility.

### ***Differentiated Product Offering and Increasing Share of Wallet***

BNS provides an extensive range of telephony solutions encompassing latest IP technology hardware and service solutions, mobile service provision and traditional fixed line hardware and service provision. Moving from a traditional reseller of telecommunications to an IP telephony carrier gives BNS greater control over the service provided to the end customer.

### ***Significant Opportunities in IP and Other New Product Revenue Growth***

The IP market is forecast to grow significantly over the next 3 years. BNS has a market leading IP technology platform via key strategic supplier relationships. BNS expects its IP take-up to continue to increase as a result of the efficiencies it provides, allowing customers to more tightly manage their operational costs on telecommunications service provision. BNS continues to invest in its IP technology infrastructure and with the implementation of its latest platform expected to be complete early in 2010 The Group expects to continue to develop enhanced products and features based on the IP platform.

### ***Diversified Customer and Credit Risk***

BNS has strong credit vetting processes and 82% of customers (by number) pay via Direct debit or automated bulk BACS payment, reducing the risk of non-payment. Credit risk is further reduced as the top 10 customers account for only 13.9% of revenue, with the wider base spread across multiple industry sectors including retail, support services, travel charity and education. As well as high levels of recurring revenues from a broad and diverse business customer base, the business critical nature of the Group's products and services means that it is less vulnerable to cuts in business' discretionary expenditure.

# Business and Financial Review

## **A resilient business model** (continued)

### ***Strong Supplier Relationships***

BNS has invested heavily in developing strong and lasting relationships with its suppliers who are top multinational businesses, providing confidence in the continuity of service to customers.

### ***Ability to Maintain the Leasing Business Model***

During the year the Group secured additional contractual relationships with leading finance companies. Access to these lines of asset finance for the Group's end customers reduces the Group's exposure to the tighter credit conditions within the asset finance market. The Directors believe that this further supports the robustness of the business model. The ability to offer 3rd party financing or internal financing to customers differentiates BNS from a number of the Group's competitors.

## **Key performance indicators**

During the period under review, as well as those KPI's included above the Group has focused its attention on the main financial metrics: Revenue, Gross margin, Operating Profit and Cash/Debt. Information on these metrics is contained within the Notes to the Financial Statements on pages 31 to 51.

## **Outlook**

Notwithstanding a positive start to the financial year, the market for new equipment sales has been challenging since the autumn of 2009 and trading has also been impacted by extreme weather conditions experienced during January 2010 that hampered sales activity and reduced installations. Despite these pressures, the business continues to perform in line with management expectations at the operating level.

Since May 2009, Barclays Bank plc, the Company's principal lender, has required the accelerated repayment of the amount outstanding on the Company's term loan, to be achieved by July 2010. Therefore, despite the satisfactory operating profit performance, the Group's cash flow requires careful management.

The Board remains confident that as part of the larger Daisy Group BNS will continue to capitalise on the growth opportunities apparent in its marketplace and that the communications sector will continue to evolve around IP technologies. As well as high levels of recurring revenues from a broad and diverse business customer base, the business critical nature of the Group's products and services means that it is less vulnerable to cuts in business' discretionary expenditure.

With over 22,000 customer sites there are numerous opportunities to expand the product portfolio. Higher conversions of upsales underpinned by long term contracted relationships are being translated into growing levels of higher margin, good quality revenue and cash generation. The strong customer proposition also facilitates enhanced retention capability in an increasingly competitive market.

## **Delisting**

In June 2009 a shareholder resolution to cancel admission of the Company's ordinary shares on AIM was passed. The Company had announced its intention to delist in April 2009 and of the total number of votes cast by shareholders at the General Meeting, 97.63% were in favour of the resolution. Against the background of the trading performance of the Group and the share price performance of the Company, the Directors had undertaken a review of the benefit of the Company's Shares continuing to be traded on AIM. Having completed this review, which included consultation with the Company's advisers and a number of its major shareholders, the Directors unanimously agreed that it would be in the best interests of the Company and its Shareholders as a whole, if the admission of the Company's Shares to trading on AIM was cancelled.

The current economic crisis had led to significant falls in the values of the global stock markets, which had been exaggerated in small cap, low liquidity stocks. Whilst there are several factors affecting any company's share price, a key point for BNS was the lack of demand for the Company's shares and, in practical terms, a small free float, which further reduces demand. Like many other small companies traded on AIM, BNS has a tightly held register of shareholders. The share register at the time of the General Meeting being called showed that more than 95 per cent of the Shares were held by only 15 Shareholders. Given the lack of liquidity in the Shares, in practice, minority Shareholders had not been able easily to trade their shares.

# Business and Financial Review

## **Delisting** (continued)

It was the opinion of the Directors that, in the current market turmoil, the Company's current market capitalisation had become disassociated with the inherent value of the Company. The Directors also believed that a stagnant or falling share price had had a de-motivating effect on the business and its employees and also a potentially adverse impact on customer and supplier perception.

## **Carrying value of freehold land**

The Directors have reconsidered the carrying value of the Freehold Land at Prudhoe and, in light of advice as to its value received from a professional external valuer that in current market conditions this land is worth £130k, have written that land down to that value and recognised an impairment loss of £349k.

# Directors Biographies

## *Barry Moat, Chairman and Non-executive Director*

Barry Moat, founder and former Chief Executive of Premier Direct Group plc, joined BNS in October 2004. Barry disposed of his entire interest in Premier Direct Group plc in November 2005 at which point he retired from the business. Barry continues to be actively involved in property investment and development.

Barry was appointed Chairman on 10 October 2008 following the resignation of Graham Wilson.

## *Garry Moat, Chief Executive*

Garry Moat founded BNS in 1996 following several senior sales positions within communications hardware and engineering businesses. He has held the position of Chief Executive since the incorporation of BNS.

## *Andrew Goldwater, Finance Director*

Andrew Goldwater joined BNS as Group Financial Controller in March 2007. In September 2007, Andrew was appointed Group Finance Director. He is a member of the Institute of Chartered Accountants in England and Wales and spent eight years with Ernst & Young LLP, rising to senior manager level. His current responsibilities include finance, human resources, health and safety, legal matters and Company secretarial.

## *Margot O'Reilly, Non-executive Director*

Margot O'Reilly was appointed Non-Executive Director on 10 October 2008. She has a strong strategy background having held the position of Investment Director at Consensus Business Group and a number of senior positions at Lloyds TSB Group.

# Directors' Report

The Directors present their Annual Report and audited Group financial statements for the year ended 31 July 2009.

## Principal activities

BNS Telecom Group plc is a reseller of fixed and mobile lines, minutes and data, traditional hardware, in addition to the latest IP telephony technology hardware, licenses and value added services. The subsidiary undertakings principally affecting the results or net assets of the Group in the year are listed in note 25 to the Parent Company financial statements.

## Review of the business

The Company is required, by the Companies Act, to set out in this report a fair review of the business for the Group during the financial year ended 31 July 2009 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils these requirements can be found within the Business and Financial Review and Corporate Governance Section. Included in the Business and Financial Review are details of expected future developments in the business of the Group and details of the key performance indicators that management use to monitor and assess the performance of the business.

A description of the Group's funding and risk management policies is set out in note 15.

Details of significant events since the balance sheet date are contained in note 26 to the financial statements.

## Results and dividends

The Group profit for the year, after taxation, amounted to £1,161,000 (2008: loss of £2,344,000). The Directors do not recommend the payment of a dividend for the year ended 31 July 2009 (2008: £nil).

## Management team

During the year there were several changes to the Board. On 10 October 2008, it was announced that Barry Moat had been appointed Non-executive Chairman with immediate effect, following the resignation of Graham Wilson. Barry Moat has been a Non-executive Director with the Group since October 2004 and is no relation of the Chief Executive Garry Moat. On the same date it was announced that Margot O'Reilly had been appointed Non-executive Director. Margot has a strong track record of advising companies on strategy having held the position of Investment Director at Consensus Business Group and a number of senior positions at Lloyds TSB Group.

Brief biographies of the Directors of the Company are shown on page 7.

## Re-election of Directors

In accordance with the Company's Articles of Association, Directors will retire by rotation. Accordingly, Garry Moat and Andrew Goldwater will retire by rotation and being eligible, offer themselves for re-election at the next AGM.

## Directors' remuneration and interests

The Remuneration report is set out on pages 11 to 12. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

The Board's Corporate Governance report is set out on pages 13 to 16.

Details of related party transactions involving Directors of the Company are given in note 24 to the financial statements.

## Directors' and officers' insurance

The Company maintains insurance cover for all Directors and officers of the Company against liabilities which may be incurred by them whilst acting in those capacities.

# Directors' Report

## Major interests in shares

At 23 November 2009, the Company had been notified of the following shareholdings representing 3% or more of the Company's ordinary share capital:

	Number of shares held	% of issued share capital
Mr G Moat	25,421,217	50.7%
Tartan Investment Fund (Gartmore)	5,316,666	10.6%
Singer Capital Markets	2,511,116	5.0%
Credit Agricole Cheuvreux	2,257,778	4.5%
Mr R Horton	2,006,162	4.0%
Forest Nominees Limited	1,840,741	3.7%
Mr B Moat	1,632,884	3.3%

## Going concern

Under Company Law, the Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company is a going concern. As part of its normal business practice, cash flow forecasts, longer term financial projections and sensitivity analysis are prepared and in reviewing this information the Board has a reasonable expectation that, as part of the larger Daisy Group plc, the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason, the going concern basis continues to be adopted in preparing the financial statements. See Principal Accounting Policies on page 22 for further detail.

## Charitable and political donations

The contributions made by the Group during the year for charitable purposes totalled £10,000 (2008: £10,000). The Group made no political donations (2008: £nil).

## Supplier payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 July 2009, the Group had an average of 43 days' purchases outstanding in trade creditors (2008: 38).

## Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 6. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's Auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant Audit information and to establish that the Company's Auditors are aware of that information.

On behalf of the Board

Garry Moat  
Chief Executive

18 February 2010

# Statement of Directors' responsibilities in relation to the Group financial statements

## **Directors' responsibilities in relation to the financial statements**

The Directors are responsible for preparing the Annual Report and Group financial statements in accordance with UK law and those International Financial Reporting Standards as adopted by the European Union.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards (IFRSs) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs subject to any material departures disclosed and explained in the financial statements; and
- make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, enabling them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of the fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Directors' Remuneration Report

## **Information not requiring audit**

As an unlisted Company, BNS Telecom Group plc is not required to comply with Schedule 7A of the Companies Act. However, the Directors feel it is appropriate to present the following information to shareholders.

## **Remuneration committee and advisers**

The Remuneration Committee is chaired by Barry Moat and its other member is Margot O'Reilly. The Committee makes recommendations to the Board on an overall remuneration package for executive Directors and other senior executives in order to retain, attract and motivate high quality executives capable of achieving the Group's objectives.

## **Remuneration policy**

The remuneration package consists of basic salary, benefits, share options, performance related bonuses and pensions. Consideration is given by the committee to pay and employment policies for the whole business, especially when determining annual salary increases.

The details of individual components of the remuneration package are discussed below.

### ***Basic salary and benefits:***

Salary and benefits are reviewed annually in July and become effective from the following 1 August. Benefits principally comprise a car, fuel, pension, private healthcare and life assurance.

The fees for Non-executive Directors are determined by the Board within the limits stipulated in the Articles of Association. The Non-executive Directors are not involved in any discussions or decision about their own remuneration.

### ***Performance related bonuses:***

Bonuses are awarded to the executive Directors based on fixed formulae relating to the Group's financial performance, determined in advance by the Remuneration Committee. Bonuses paid during the year to Executive Directors are detailed in the table over page.

### ***Executive share options:***

The Company operates an executive share option scheme, the BNS Telecom Group plc Share Option Scheme 2005, pursuant to which Directors and senior executives may be granted options to acquire ordinary shares in the Company at a fixed option price with set performance conditions.

### ***Defined contributions pension schemes:***

The Company paid contributions of 6% of basic salary into a personal defined contribution pension scheme on behalf of Andrew Goldwater.

### ***Service agreements***

All service agreements for the executive Directors are terminable on 12 months' notice by either party. The service agreements for the Non-executive Directors are terminable by the Company giving 12 months' notice. The service agreements for Non-executive Directors can be terminated by the Director at any time without notice.

# Directors' Remuneration Report

## Directors' remuneration

The remuneration of the Directors is as follows:

### Executive Directors

	Basic salary and fees £'000	Bonus £'000	Compensation for loss of office £'000	Benefits in kind £'000	Total 2009 £'000	Total 2008 £'000	Pension contributions 2009 £'000	Pension contributions 2008 £'000
Garry Moat (note 1)	249	184	-	34	467	245	-	-
Andrew Goldwater (note 1,2)	110	10	-	1	121	100	3	3
David Horrocks (notes 1,3)	-	-	-	-	-	139	-	-
	<b>359</b>	<b>194</b>	<b>-</b>	<b>35</b>	<b>588</b>	<b>484</b>	<b>3</b>	<b>3</b>

### Non-Executive Directors

	Basic salary and fees £'000	Bonus £'000	Compensation for loss of office £'000	Benefits in kind £'000	Total 2009 £'000	Total 2008 £'000	Pension contributions 2009	Pension contributions 2008
Graham Wilson (note 4)	8	-	39	-	47	40	-	-
Barry Moat	39	-	-	-	39	32	-	-
Margot O'Reilly (note 5)	30	-	-	-	30	-	-	-
	<b>77</b>	<b>-</b>	<b>39</b>	<b>-</b>	<b>116</b>	<b>72</b>	<b>-</b>	<b>-</b>
	<b>436</b>	<b>194</b>	<b>39</b>	<b>35</b>	<b>704</b>	<b>556</b>	<b>3</b>	<b>3</b>

- (1) The remuneration packages include non-cash benefits including the provision of a company car, fuel, private healthcare and life assurance.
- (2) Appointed 6 September 2007.
- (3) Resigned 6 September 2007.
- (4) Resigned 10 October 2008.
- (5) Appointed 10 October 2008.

In addition to the amounts above, payments were made to Barry Moat of £44,000 and Margot O'Reilly of £75,000 in respect of consultancy services provided during the year, as disclosed in note 24.

### Interests in options

The interests of the Directors in executive share options at the year end were as follows:

	Exercise price	At 1 August 2008 No.	Granted during the year No.	Forfeited during the year No.	At 31 July 2009 No.
Andrew Goldwater	36.0p	75,000	-	-	75,000
Andrew Goldwater	27.0p	600,000	-	-	600,000

Subsequent to the year end, on 9 October 2009, the Company granted an option over 1,575,000 ordinary shares to Andrew Goldwater pursuant to the BNS Telecom Group plc Enterprise Management Incentive Plan. The exercise price of these share options is 1p per share. At the same date Andrew Goldwater released his rights under the 675,000 share options outstanding at 31 July 2009.

# Corporate Governance

BNS Telecom Group plc is an unlisted public company and is not therefore required to comply with the Principles of Good Governance and Code of Best Practice, the Financial Reporting Council Combined Code on Corporate Governance. However, the Directors are committed to delivering high standards of corporate governance to the Company's shareholders and other stakeholders including employees, suppliers and the wider community. The Board of Directors operates within the framework described below.

## **The workings of the Board and its committees**

### ***The Board of Directors***

The Board currently comprises the Non-executive Chairman, the Chief Executive, the Finance Director and an independent Non-executive Director. The biographies of each Director appear on page 7.

The Directors demonstrate a range of experience and calibre sufficient to ensure appropriate independent judgement on issues of strategy, performance, resources and standards of conduct vital to the continued success of the Group.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the financial statements is given on page 10.

The Board reviews trading performance, ensures adequate funding and human resources are in place, sets and monitors strategy, examines major acquisition possibilities, reviews and monitors management performance and ensures that the Company's obligations to shareholders and others are met, reporting to shareholders where considered necessary. The Non-executive Directors have a particular responsibility to ensure strategies proposed by the executive Directors are fully considered and performance of management is monitored and assessed. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. There are Group procedures in place which include those for Directors to take independent professional advice, if necessary, at the Group's expense.

The following committees deal with specific aspects of the Group's affairs.

### ***Remuneration committee***

The Remuneration Committee Chairman is Barry Moat and its other member is Margot O'Reilly. The Remuneration Committee is responsible for making recommendations to the Board, within agreed terms of reference, regarding the Group's framework of executive remuneration. The Committee determines the contract terms, remuneration and other benefits for each of the executive Directors, including performance related bonus schemes, pension rights and compensation payments. The Board of Directors (excluding Non-executive Directors) determines the remuneration of the Non-executive Directors.

Further details of the Group's policies on remuneration and service contracts are given in the report on the Directors' remuneration on pages 11 and 12.

### ***Audit committee***

The Audit Committee, which is chaired by Barry Moat, comprises both Non-executive Directors and meets at least once annually. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by Garry Moat and Andrew Goldwater.

### ***Nominations committee***

The Company has appointed a Nominations Committee comprising the two Non-executive Directors and Garry Moat, with Barry Moat as Chairman. The Committee evaluates the balance of skills, knowledge and experience on the Board and prepares descriptions of the roles and capabilities required for any future Board appointments including developing and monitoring the process of such appointments.

# Corporate Governance

## **The workings of the Board and its committees**

### ***Shareholder relations***

Communications with shareholders are given a high priority by the Board of Directors who take responsibility for ensuring a satisfactory dialogue takes place.

The Business and Financial Review on pages 3 to 5 includes a detailed review of the business and planned future developments.

The executive Directors meet with the Company's institutional shareholders at appropriate times. The Chief Executive ensures that the views of shareholders are communicated to the Board as a whole. Following the Group's delisting the website containing investor information has continued to be maintained in order to provide a forum for communications with individual investors and other interested parties.

In addition to meetings with executive Directors, institutional shareholders have the opportunity of additional meetings with the Chairman. Their views are documented and circulated to all Directors.

### ***Internal control***

The Directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage the risk of failure to achieve the Group's strategic objectives. It cannot totally eliminate the risk of failure but will provide reasonable, although not absolute, assurance against material misstatement or loss.

Key elements of the Group's internal controls are:

- a clearly defined organisation and management structure with delegation of authority to Committees of the Board and operational management;
- comprehensive information is provided to management on a monthly basis covering both financial and non-financial performance measures;
- a detailed operational budget is prepared for the year ahead, reviewed and approved by the Board;
- procedures for the approval of acquisition opportunities and major capital expenditure projects; and
- Monthly reporting of performance against budget. Relevant action is then taken, including the preparation of updated forecasts for the year.

Given the Group's relatively small size, the Board does not consider that it is appropriate to have a Group internal audit function at present.

## **Principal risks and uncertainties**

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected results.

### ***Liquidity risk***

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. External funding facilities are managed to ensure that both short term and longer term funding is available to provide short term flexibility whilst providing sufficient funding to meet the Group's forecast working capital requirements.

The Board believes that the business has a number of resilient features which mitigate the risks associated with an uncertain economic environment. The Group's forecasts and projections, taking account of estimated changes in trading performance, anticipate that the Group will operate within the level of its revised bank facility which was signed in May 2009. The revised facility comprises a term loan of £2.8 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly instalments over 14 months with this facility and the overdraft subject to review in March 2010. Both facilities are repayable on demand. These bank facilities are expected to be re-financed by facilities put in place by Daisy Group plc. Subsequent to the year end Garry Moat provided a personal guarantee to Barclays Bank to a maximum value of £800,000. This personal guarantee will be released on completion of the sale of the Group to Daisy Group plc.

# Corporate Governance

## **Principal risks and uncertainties** (continued)

### **Liquidity risk** (continued)

Sales of traditional and IP-based hardware are typically supplied to an end customer who enters into a leasing agreement with a finance company. Therefore, the levels of cash generation within the Group's forecasts are dependent on the continued availability of hardware leasing funding. The Group has mitigated this risk by developing additional commercial relationships with leasing companies in order to reduce its exposure to a potential tightening of credit conditions within the business asset finance market. The Group has further mitigated its risk by considering alternative operating strategies should hardware lease funding no longer be available. The Board is satisfied that these revised operating strategies could be adopted quickly if necessary.

### **Commercial relationships**

The Group benefits from close commercial relationships with a number of key suppliers and partners. The Board acknowledges that the Group has a reliance in particular on its contracts with BT and Vodafone, the finance companies who provide the finance to end customers under a leasing agreement and also its white label joint marketing partners. Damage to or loss of any of these relationships could have a detrimental effect on the Group's results. To manage this risk the Group continually monitors supplier and partner views to ensure that BNS fulfil their respective needs and members of the Board meet with management from our strategic partners on at least on an annual basis.

### **Credit risk**

The Group extends credit to customers of various durations depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer or customers prove unable to meet payments when they fall due, the Group will suffer adverse consequences. To manage this risk, the Group continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Also, 82% of customers (by number) pay via Direct debit or automated bulk BACS payment, reducing the risk of non-payment. Credit risk is further reduced as the top 10 customers account for only 13.9% of revenue, with the wider base spread across multiple industry sectors including retail, support services, travel charity and education.

The Group receives credit from suppliers of various durations depending on supplier terms and industry accepted practice for the products and services. In the event that a supplier reduces the credit available, the Group may need to seek alternative supplies or suffer adverse consequences. The Group maintains good working relationships with all of its suppliers and regularly discusses with them the commercial prospects of the market.

The Group provides extended credit to certain customers in the form of finance lease arrangements for the provision of certain IP telephony hardware, licences and installation services. The recoverability of these debtors is inherently higher risk than standard trade debtors due to their long term nature. However the Group carefully monitor the status of customers and weigh up the associated risks and rewards before entering into such finance lease arrangements and the Directors make appropriate provision for doubtful debts.

The loan to Garry Moat of £879,000 remains outstanding at the year end and date of approval of these accounts. On the completion of the sale of BNS Group plc to Daisy Group plc this loan will be repaid in full and accordingly the Directors believe it is now fully recoverable within 12 months of the balance sheet date.

### **Technological change**

Technological changes within the telecommunications market are rapid and there is a risk that the Group fails to maintain pace with this market and deliver reliable and appropriately priced products under appropriate contracts which substitutes existing technology. The Group mitigates this risk by employing a team within its Network Operations Centre whose duties include research, review, procurement and testing of appropriate new technology products for testing prior to release to our customers.

# Corporate Governance

## **Principal risks and uncertainties** (continued)

### ***Competitor risk***

The Group operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating new product lines) before we make corresponding updates and developments to our own range. This could render our products and services out-of-date and could result in loss of market share. To reduce this risk, we invest in new product development and securing new supplier relationships to ensure that we have products at various stages of the product life cycle.

Competitor risk also manifests itself in price pressures which are usually experienced in more mature markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. The Group therefore monitor market prices on an ongoing basis.

# Independent auditors' report

## to the members of BNS Telecom Group plc

We have audited the Group financial statements of BNS Telecom Group plc for the year ended 31 July 2009, which comprise the Consolidated income statement, the Consolidated balance sheet, the Consolidated cashflow statement, the Consolidated statement of recognised income and expense and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 auditor's 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 explained more fully in the Director's Responsibilities Statement, set out on page 10, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 July 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on the other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following: Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

# Independent auditors' report

## to the members of BNS Telecom Group plc

### **Other matters**

We have reported separately on the parent company financial statements of BNS Telecom Group plc for the year ended 31 July 2009.

Mark Hatton (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
Newcastle upon Tyne

## Consolidated Income Statement for the year ended 31 July 2009

	Note	2009 £'000	2008 £'000
Revenue	1	36,933	32,597
Cost of sales		(21,379)	(21,719)
<b>Gross profit</b>		<b>15,554</b>	<b>10,878</b>
Distribution costs		(4,059)	(3,248)
Administrative expenses		(9,742)	(8,551)
Trading profit		1,753	(921)
Profit on disposal of property		-	-
<b>Group operating profit/(loss)</b>	<b>2</b>	<b>1,753</b>	<b>(921)</b>
<b>Underlying EBITDA</b>		<b>3,234</b>	<b>130</b>
Depreciation		(734)	(732)
Amortisation		(215)	(209)
Share-based payments		(39)	35
Exceptional costs	3	(493)	(145)
<b>Group operating profit/(loss)</b>		<b>1,753</b>	<b>(921)</b>
Finance income	6	44	90
Finance costs	6	(709)	(435)
<b>Profit/(loss) before income tax and discontinued operations</b>		<b>1,088</b>	<b>(1,266)</b>
Income tax (charge)/credit	7	(366)	356
<b>Profit/(loss) after tax before discontinued operations</b>		<b>722</b>	<b>(910)</b>
Profit/(loss) from discontinued operations after tax	4	90	(1,434)
<b>Profit/(loss) for the financial year</b>		<b>812</b>	<b>(2,344)</b>

Attributed to:

<b>Equity holders of the parent</b>	<b>812</b>	<b>(2,344)</b>
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## Consolidated Statement of Recognised Income and Expense for the year ended 31 July 2009

	2009 £'000	2008 £'000
Deferred tax charge on share options	(34)	-
<b>Income recognised directly in equity</b>	<b>(34)</b>	<b>-</b>
Profit/(loss) for the year	812	(2,344)
<b>Total recognised income and expense for the year</b>	<b>778</b>	<b>(2,344)</b>
Attributed to:		
Equity holders of the parent	778	(2,344)
Minority interest	-	-
	<b>778</b>	<b>(2,344)</b>

# Consolidated Balance Sheet

## at 31 July 2009

	Note	2009 £'000	2008 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	1,145	2,151
Goodwill	9	3,843	3,843
Other intangible assets	9	1,031	1,259
Trade and other receivables	11	1,159	797
Deferred tax assets	16	183	375
		<b>7,361</b>	<b>8,425</b>
<b>Current assets</b>			
Inventories	10	608	456
Trade and other receivables	11	4,070	3,952
Current income tax receivable		26	-
Cash and cash equivalents		265	2
		<b>4,969</b>	<b>4,410</b>
<b>Total assets</b>		<b>12,330</b>	<b>12,835</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	12	(2,514)	(3,924)
Trade and other payables	13	(6,673)	(7,091)
Deferred income		(1,188)	(1,900)
Current income tax payable		(345)	(86)
Derivative financial instruments	14	(60)	(14)
		<b>(10,780)</b>	<b>(13,015)</b>
<b>Net current liabilities</b>		<b>(5,811)</b>	<b>(8,605)</b>
<b>Non-current liabilities</b>			
Borrowings	12	(249)	(391)
Deferred income		(2,586)	(1,439)
Deferred tax liabilities	16	(260)	(312)
Provisions	17	-	(40)
		<b>(3,095)</b>	<b>(2,182)</b>
<b>Total liabilities</b>		<b>(13,875)</b>	<b>(15,197)</b>
<b>Net liabilities</b>		<b>(1,545)</b>	<b>(2,362)</b>
<b>Capital and reserves</b>			
Share capital	18	5,012	5,012
Share premium	18	2,245	2,245
Other reserves	18	(3,939)	(3,939)
Retained earnings	18	(4,863)	(5,680)
<b>Total shareholders' deficit</b>		<b>(1,545)</b>	<b>(2,362)</b>

These financial statements were approved by the Board of Directors on 18 February 2010 and were signed on its behalf by:

**Garry Moat**

**Andrew Goldwater**

# Consolidated Cash Flow Statement

for the year ended 31 July 2009

	Note	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	20	3,287	2,414
Interest received		-	63
Interest paid on bank loans and overdrafts		(1,025)	(21)
Interest element of finance lease payments		(50)	(44)
Tax received		-	218
<b>Cash flow from operating activities in continuing operations</b>		<b>2,212</b>	<b>2,630</b>
Cash flow from operating activities in discontinued operations		(190)	(2,318)
<b>Total cash flow from operating activities</b>		<b>2,022</b>	<b>312</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(113)	(190)
Proceeds from sale of plant and equipment		272	99
Amounts loaned to Director including interest and charges	24	(197)	(1,263)
Amounts repaid by Director	24	140	498
Purchase of intangible assets		(54)	(18)
Proceeds from sale of intangible assets		67	-
<b>Cash flow from investing activities in continuing operations</b>		<b>115</b>	<b>(874)</b>
Cash flow from investing activities in discontinued operations		-	-
<b>Total cash flow from investing activities</b>		<b>115</b>	<b>(874)</b>
<b>Cash outflow from financing activities</b>			
Drawdown of new bank loans	14	2,816	-
Repayment of bank loans	14	(4,175)	(1,175)
Capital element of finance lease payments		(406)	(466)
<b>Cash flow from financing activities in continuing operations</b>		<b>(1,765)</b>	<b>(1,641)</b>
Cash flow from financing activities in discontinued operations		-	-
<b>Total cash outflow from financing activities</b>		<b>(1,765)</b>	<b>(1,641)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>372</b>	<b>(2,203)</b>
Cash and cash equivalents at start of period		(107)	2,096
<b>Cash and cash equivalents at end of period</b>		<b>265</b>	<b>(107)</b>

# Principal Accounting Policies

BNS Telecom Group plc (the Company) is a public limited company incorporated in the United Kingdom.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about the Group.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') and International Finance Reporting Interpretation Committee ("IFRIC") interpretations that are endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRS.

The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 52 to 58.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

## **Basis of preparation**

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand unless otherwise indicated.

The financial information has been prepared under the historical cost convention, modified to include the revaluation of certain freehold land and buildings, except for share options as part of employee share schemes and derivative financial instruments, which are stated at fair value.

## **Going concern**

The financial statements have been prepared on a going concern basis which assumes that the Company and the Group will continue in operational existence for the foreseeable future and meet their liabilities as they fall due. There are uncertainties that the Directors have had to consider in deciding to prepare the financial statements on the going concern basis, which are set out below.

The Group's business activities, together with factors likely to affect its future development, performance and position and commentary on the Group's financial results, its cash flows, liquidity requirements and borrowing facilities are set out in the Business Review on pages 3 to 5 and within the financial statements. The financial statements at 31 July 2009 show that the Group generated a profit on continuing operations of £1.1 million with cash generated from continuing operations of £3.3 million. The financial statements show that the Group Balance Sheet was in a net liability position of £1.5 million.

In addition notes 14 and 15 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to liquidity risk and credit risk.

On 7 May 2009 agreement was reached to amend the Group's bank facilities with the revised terms comprising a term loan of £2.8 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly instalments over 14 months with this facility and the overdraft, which are both repayable on demand, subject to review in March 2010. As discussed in the Business review, the Board of BNS Telecom Group plc and the Board of Daisy Group plc have announced the terms of a recommended cash offer for the share capital of BNS Telecom Group plc. On completion of the sale of the Group to Daisy Group plc the facilities will be refinanced by facilities put in place by Daisy Group plc.

The directors have considered the recent operating performance of the Group and the ability of Daisy Group plc to provide the necessary ongoing financing facilities to the Group to support it in its operations post completion of the sale to Daisy Group plc. Accordingly, they are satisfied that it is appropriate for the going concern basis to be used in preparing these financial statements.

# Principal Accounting Policies

## **Critical judgements, estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as follows:

### ***Revenue recognition and presentation of arrangements with multiple deliverables***

In revenue arrangements including more than one deliverable, the deliverables are assigned to one or more separate units of accounting and the arrangement consideration is allocated to each unit of accounting based on its relative fair value.

Determining the fair value of each deliverable can require complex estimates due to the nature of the goods and services provided. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis or based on comparable pricing arrangements observable in the market.

### ***Receivables***

Debts are recognized to the extent that they are judged to be recoverable. Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices and finance lease receivables to appropriately reflect any uncertainty as to ultimate collection.

### ***Taxation***

The Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with HMRC. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with HMRC.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### ***Recognition of deferred tax assets***

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted.

Recognition, therefore, involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised.

Historical differences between forecast and actual taxable profits have not resulted in material adjustments to the recognition of deferred tax assets.

# Principal Accounting Policies

## ***Impairment of non-financial assets***

The Group assesses whether there are any indicators of impairment as at the transition date and thereafter for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

## **Basis of consolidation**

The consolidated financial information includes the accounts of BNS Telecom Group plc and all subsidiaries (entities controlled by the Company).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. Control is assumed where the Company has the power to govern the financial and operating policies of an investee entity so as to gain benefits from its activities.

Minority interests are presented within equity in the consolidated balance sheet separately from parent shareholders' equity. Where losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the subsidiary's equity, the excess is allocated against the majority interest, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Inter-company transactions and balances are eliminated on consolidation.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those adopted by the Group.

The financial statements of all subsidiaries are prepared to the same reporting date as the parent Company.

The combination of the Company and its subsidiary BNS Telecom Limited has been accounted for using merger accounting principles. All other business combinations are accounted for using the purchase method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill.

## **Property, plant and equipment and depreciation**

All property, plant and equipment are stated at cost less accumulated depreciation (with no depreciation being charged on land).

Depreciation is calculated to write down the cost less estimated residual value over the expected useful economic lives, which are generally as follows:

Fixtures, fittings and office equipment – 15% straight line

Computer equipment – 33% straight line

Motor vehicles – 25% reducing balance

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted prospectively if appropriate.

The gain or loss on disposal is determined by comparing net sales proceeds with carrying value and is recognised in the income statement.

# Principal Accounting Policies

## Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

### Group as a lessee

Leases of property, plant and equipment where the Group has substantially all of the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised at inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Capitalised leased assets are subsequently depreciated over the shorter of the lease term or the asset's useful life.

Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under current, or non-current, trade and other payables. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

All other leases are classified as operating leases. Lease payments made under operating leases are charged to the income statement as an expense on a straight line basis over the term of the lease.

If a sale and leaseback transaction results in the creation of an operating lease and it is clear that the transaction is established at fair value, any profit or loss is recognised in the income statement immediately.

### Group as a lessor

Assets leased to a customer under arrangements that meet the relevant criteria of IAS 17 are classified as finance leases. The fair value of the assets provided to the end customer are recognised as a receivable.

There are no guaranteed residual values available to the Group at the end of any finance leases, and as unguaranteed residual values are not considered to be material to the Group, they are not included in the net investment in the finance lease.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Any gain or loss on early termination of leases, calculated as the total net sums recovered and the book value of net investments in finance leases, is recognised in the income statement when such terminations arise.

## Goodwill

Goodwill represents the excess of the fair value over the Group's interest in the net fair value of the identifiable net tangible and intangible assets, liabilities and contingent liabilities acquired.

Under IFRS 3 - Business Combinations, goodwill arising on acquisitions made since 1 August 2006 (the date of transition to IFRS) is not subject to amortisation but is tested for impairment at the date of transition to IFRS, whenever there is an indication that it may be impaired and in any case at each reporting date.

For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at a business segment level or statutory component level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement. Any such impairment losses recognised in respect of goodwill are not reversed. On disposal of a cash-generating unit, the allocated goodwill is taken into account when determining the gain or loss on disposal to be recognised in the income statement.

The Group has taken the allowed exemption not to apply IFRS 3 retrospectively to business combinations that took place prior to 1 August 2006. As a result, goodwill arising from past business combinations remains as stated under UK GAAP at 1 August 2006, less any provision for impairment.

# Principal Accounting Policies

## **Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see below).

Other intangible assets are amortised on a straight line basis over their estimated useful economic life, unless such lives are indefinite, from the date they are available for use.

Software – 3 years

Third party licences – life of the customer contract (up to 7 years)

Customer contract and relationships - life of the customer contract (up to 7 years)

Internal software development costs do not meet the recognition criteria of IAS 38 and are therefore recognised in the income statement in the year in which they are incurred. External software development costs which do meet the recognition criteria of IAS38 are capitalised as an intangible asset.

## **Impairment of non-current assets excluding goodwill**

Intangible assets and property, plant and equipment are tested for impairment whenever there is an indication that an asset may be impaired.

An impairment loss is recognised in the income statement if the recoverable amount (being the higher of fair value less costs to sell and value in use) of an asset or cash generating unit falls below its carrying value in the balance sheet.

Such impairment losses may be reversed in subsequent periods if there is an indication that the impairment loss recognised in prior periods may no longer exist or may have decreased.

## **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

## **Trade and other receivables**

Trade receivables are stated at the lower of their invoiced amount and recoverable amount, discounted where appropriate.

Other receivables are stated at their fair value less any provision for impairment

A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

## **Cash and cash equivalents**

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand, short and medium term deposits with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

# Principal Accounting Policies

## Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group makes use of derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Given the conditions applicable to the specific derivative instrument the Group holds, it is not deemed to meet the criteria as required by IAS 39 to permit hedge accounting.

Derivative financial instruments are recognised initially at fair value, ie cost. Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement as a component of financing income or costs.

The fair value of the derivative financial instruments is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date, taking into account current interest rates and the current creditworthiness of the instrument counterparties.

## Interest bearing borrowings

Interest bearing bank loans and overdrafts are initially recorded at the value of the amount received, net of attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

## Trade and other payables

Trade and other payables are stated at their nominal value.

## Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

## Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where a possible obligation arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one of more uncertain future events, unless the possibility of an outflow of resources embodying economic events is remote, disclosure of a contingent liability will be made.

## Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## Segmental reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business segment (business segment) or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

# Principal Accounting Policies

## Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Where goods and/or services are sold in one bundled transaction, the Group allocates the total arrangements consideration to the different individual elements based on their relative fair values. Management determines the fair value of individual elements based on the actual amounts charged by the Group on a stand-alone basis, or alternatively based on comparable pricing arrangements observable in the market.

Revenue is generated from the sale of goods and services to customers and is recognised for each category as follows:

Telephone calls – revenue from calls made by customers is recognised at the time the call is made.

Line access charges – revenue is recognised evenly over the period to which the access contract relates.

Hardware, licenses and installation – revenue from the sale and installation of hardware and associated licenses is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on delivery. Revenue in respect of licenses is only recognised where there are no ongoing obligations. Where ongoing obligations exist revenue is deferred as appropriate.

Hardware and licenses leased to customers – where hardware and associated licenses is leased to customers under a finance lease arrangement, lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Where assets are leased out under an operating lease arrangement, lease income is recognised over the term of the lease on a straight line basis.

Maintenance services – annual fees charged to customers for the provision of maintenance and support services are recognised on a straight-line basis over the period of the related agreement.

Connection and mobile commissions – commissions receivable from mobile phone operators are recognised in line with the fulfilment of the associated obligation. Separate provision is made for any anticipated liabilities.

To the extent that invoices are raised, by agreement with the customer, to a different pattern from the dates of revenues described above, appropriate adjustments are made through accrued income and deferred income.

## Installation costs

Costs are incurred by the Group from third parties relating to the initial transfer and connection of new fixed line customers to the Group's billing platform. Where these costs are not recharged to the customer, they are expensed to the income statement when incurred.

## Exceptional items

Exceptional items represent material items which derive from events or transactions that fall within the ordinary activities of the reporting entity and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of size or incidence if the financial statements are to give a true and fair view.

These items are presented within the relevant income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance.

## Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business operations.

Classification as a discontinued operation occurs upon a disposal, abandonment or termination, or when the operation meets the criteria to be classified as held for sale, if earlier.

## Employee benefits

### *Pensions*

The Group operates a defined contribution pension scheme. The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

# Principal Accounting Policies

## Employee benefits (continued)

### *Share-based payments*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 19.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where nonvesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

### **Finance revenue and costs**

Interest payable on borrowings, the interest expense component of finance lease payments and interest income is recognised in the income statement using the effective interest rate method.

### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

No deferred tax is recognised in respect of temporary differences associated with investments in subsidiaries where the Group is able to control the timing of reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

# Principal Accounting Policies

## Taxation (continued)

Deferred tax assets are recognised only to the extent that the Directors consider that it is 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 calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised and is not discounted.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## Dividends

Dividends paid are charged to retained earnings on the earlier of the date of payment or the date on which they become a legal liability of the Company.

## New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements.

<b>International Accounting Standards (IAS/IFRSs)</b>	<i>Effective date (periods beginning on or after)</i>
IFRS 8 'Operating segments'	1 January 2009
IAS 23 'Borrowing costs (revised)'	1 January 2009
IFRS 2 'share-based payments – vesting conditions and cancellations'	1 January 2009
IFRS 3 'Business combinations (revised)'	1 July 2009
IAS 27 'Consolidation and separate financial statements (revised)'	1 July 2009
IAS 1 'Presentation of financial statements (revised)'	1 January 2009
Amendment to IAS 32 and IAS 31 'Puttable financial instruments and obligations arising on liquidations'	1 January 2009
Amendment to IFRS 1 and IAS 27 'Amendments for determining the cost of an investment in separate financial statements'	1 January 2009
Amendment to IAS 39 'Eligible hedged items'	1 January 2009
Amendment to IFRS 7 'Improving disclosures'	1 January 2009
Improvements to IFRSs (April 2009)	1 July 2009
Improvements to IFRSs (May 2009)	1 January 2009
Amendments to IFRS 2 'Group cash settled share-based payment arrangements'	1 October 2010

## International Financial Reporting Interpretation Committee (IFRIC)

IFRIC 13 'customer loyalty programmes'	1 July 2008
IFRIC 17 'Distribution of non-cash assets to owners'	1 July 2009
IFRIC 18 'Transfer of assets from customers'	1 July 2009
IFRIC 15 'Agreements for the constructions of real estate'	1 January 2009
IFRIC 16 'Hedges of a net investment in a foreign operations'	1 October 2008

The Directors do not anticipate adoption of these standards and interpretations will have a material impact on the Group's financial statements.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 1. Segmental analysis

The Group operates in one business segment, being the provision of telecoms products and services into the SME and Corporate markets. The business operates wholly within the UK, which the directors consider to be a single geographical segment. Accordingly, no segmental information for business segment or geographical segment is disclosed.

### 2. Group operating profit/(loss) before net finance costs and tax

This is arrived at after charging/(crediting):

	2009			2008		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Staff costs (note 5)	8,344	-	8,344	7,339	149	7,488
Depreciation of property, plant & equipment						
- Owned assets	521	-	521	595	-	595
- Leased assets	213	-	213	137	-	137
Amortisation of intangibles						
- Acquired intangibles	191	-	191	191	-	191
- Software	24	-	24	18	-	18
Exceptional costs (see note 3)	493	-	493	145	-	145
Loss on disposal of plant and equipment	24	-	24	48	-	48
Operating lease rentals payable						
- Plant and machinery	87	-	87	32	-	32
- Property	457	-	457	433	-	433

### Services provided by the Group's auditors

A summary of the audit and non-audit fees in respect of services provided by Ernst and Young LLP charged to operating profit in the year ended 31 July 2009 is set out below:

	2009 £'000	2008 £'000
Audit services - Statutory audit	69	73
Taxation services	43	11
Corporate finance services	83	-
Other services	30	19
	<b>225</b>	<b>103</b>

Fees for other services relate primarily to other advisory services and preparation of the interim financial statements (2008: £nil).

Total fees paid to the auditors were £225,000 (2008: £103,000).

# Notes to the Financial Information

## for the year ended 31 July 2009

### 3. Exceptional costs

Exceptional costs are analysed as follows:

	Continuing	Discontinued	2009 Total	Continuing	Discontinued	2008 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Employee related expenses	137	-	137	145	-	145
Impairment of property, plant and equipment	349	-	349	-	-	-
Onerous property related expenses	7	-	7	-	-	-
	<b>493</b>	<b>-</b>	<b>493</b>	<b>145</b>	<b>-</b>	<b>145</b>

In the year ended 31 July 2009 exceptional costs of £40,000 were incurred in respect of a compensation for loss of office payment made to a Director. See the Directors' Remuneration report on page 11 and 12.

Further costs of £97,000 that have been disclosed as exceptional items relate to specific redundancy costs. The Directors consider that their separate reporting helps provide a better indication of the Group's underlying business performance.

The impairment loss of £349,000 arose on reducing the carrying value of land, based on a valuation of £130,000 carried out by Smith Cole Wright, Chartered Surveyors in February 2010.

In the year ended 31 July 2008 exceptional costs included an amount of £126,000 incurred in respect of a payment made to a Director. See the Directors' Remuneration report on pages 11 to 12.

### 4. Discontinued operations

The discontinued operations comprise the trading activities of the Network Services business which was closed on 29 October 2007.

The profit/(loss) from discontinued operations after tax is analysed as follows:

	2009 £'000	2008 £'000
Revenue	-	2,150
Cost of sales	-	(2,421)
Gross profit/(loss)	-	(271)
Operating income/(costs)	64	(1,163)
Profit/(Loss) before income tax	64	(1,434)
Income tax credit	26	-
Profit/(Loss) after tax	90	(1,434)

The discontinued operations comprise the movement on provisions relating to the final trading activities of the Network Services business which was closed on 29 October 2007.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 5. Employees

Employee costs and numbers employed (including Directors) for the Group were as follows:

	Continuing	Discontinued	2009	Continuing	Discontinued	2008
	£'000	£'000	Total	£'000	£'000	Total
			£'000			£'000
Wages and salaries	7,402	-	7,402	6,484	131	6,615
Social security costs	852	-	852	840	17	857
Other pension costs	51	-	51	50	1	51
Share based payments	39	-	39	(35)	-	(35)
	<b>8,344</b>	<b>-</b>	<b>8,344</b>	<b>7,339</b>	<b>149</b>	<b>7,488</b>

	Continuing	Discontinued	2009	Continuing	Discontinued	2008
	Number	Number	Total	Number	Number	Total
			Number			Number
Corporate and administration	57	-	57	60	-	60
Sales and customer service	147	-	147	131	-	131
Technical and engineering	51	-	51	40	3	43
	<b>255</b>	<b>-</b>	<b>255</b>	<b>231</b>	<b>3</b>	<b>234</b>

Details of the Directors' remuneration and compensation that are required to be disclosed and audited in accordance with the Companies Act are set out in the Directors' Remuneration Report on pages 11 to 12 and in note 24.

The Group operates a defined contribution pension scheme for the benefit of certain Directors and employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The unpaid contributions outstanding at the year end were £10,000 (2008: £10,000).

### 6. Finance income and costs

	2009	2008
	£'000	£'000
Interest income on amounts loaned to Director	44	90
Interest and charges on bank loans and overdrafts	(608)	(377)
Other interest payable	(5)	(4)
Interest on obligations under finance leases and hire purchase contracts	(50)	(44)
Mark to market loss in respect of derivative financial instruments	(46)	(10)
	<b>(709)</b>	<b>(435)</b>
Finance costs - net	<b>(665)</b>	<b>(345)</b>

# Notes to the Financial Information for the year ended 31 July 2009

## 7. Taxation

(a) Analysis of charge for the year:

	2009 £'000	2008 £'000
Current tax		
UK Corporation tax	331	-
Adjustments in respect of prior years	(97)	-
	<b>234</b>	<b>-</b>
Deferred tax (note 16)		
Origination and reversal of temporary differences	99	(352)
Adjustments in respect of prior years	7	(4)
	<b>106</b>	<b>(356)</b>
Total tax charge/(credit)	<b>340</b>	<b>(356)</b>
Add tax credit included within discontinued operations	26	-
Total tax charge/(credit) in the income statement on continuing operations	<b>366</b>	<b>(356)</b>

(b) Deferred tax included in the statement of recognised income and expense

	31 July 2009 £'000	31 July 2008 £'000
Deferred tax charge on share options	34	-

(c) Reconciliation of total tax charge for the year

	31 July 2009 £'000	31 July 2008 £'000
Profit/(loss) before tax (including discontinued operations)	1,152	(2,700)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 28% (2008: 28%)	323	(756)
Effect of:		
Disallowables	25	55
Impairment of freehold land	97	-
Share options deferred tax asset reversed	37	-
Losses relating to discontinued business	-	401
Prior year deferred tax under/(over)provision	7	(4)
Prior year corporation tax overprovision	(97)	-
IFRS deferred tax movement	-	(52)
Other	(52)	-
Total tax charge/(credit) reported in the income statement (including discontinued operations)	<b>340</b>	<b>(356)</b>

# Notes to the Financial Information

## for the year ended 31 July 2009

### 8. Property, plant and equipment

	Freehold land £'000	Fixtures, fittings and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At 1 August 2007	479	1,269	1,856	1,449	5,053
Additions	-	161	15	678	854
Disposals	-	(4)	(2)	(383)	(389)
At 31 July 2008	479	1,426	1,869	1,744	5,518
Additions	-	70	16	287	373
Disposals	-	(50)	-	(992)	(1,042)
<b>At 31 July 2009</b>	<b>479</b>	<b>1,446</b>	<b>1,885</b>	<b>1,039</b>	<b>4,849</b>
<b>Depreciation and impairment</b>					
At 1 August 2007	-	741	1,487	649	2,877
Charge for the year	-	170	203	359	732
Disposals	-	(1)	(2)	(239)	(242)
At 31 July 2008	-	910	1,688	769	3,367
Charge for the year	-	278	122	334	734
Impairment loss	349	-	-	-	349
Disposals	-	(50)	-	(696)	(746)
<b>At 31 July 2009</b>	<b>349</b>	<b>1,138</b>	<b>1,810</b>	<b>407</b>	<b>3,704</b>
<b>Net book value At</b>					
<b>31 July 2009</b>	<b>130</b>	<b>308</b>	<b>75</b>	<b>632</b>	<b>1,145</b>
At 31 July 2008	479	516	181	975	2,151
At 31 July 2007	479	528	369	800	2,176

Included in the net book value of fixtures, fittings and office equipment and motor vehicles above, is an amount of £648,000 (2008:£630,000) in respect of assets held under finance leases and hire purchase contracts.

The Directors have reconsidered the carrying value of the Freehold Land at Prudhoe and, in light of advice as to its value received from a professional external valuer that in current market conditions this land is worth £130k, have written that land down to that value and recognised an impairment loss of £349k.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 9. Intangible assets

	Goodwill £'000	Acquired software £'000	Customer related intangibles £'000	Total £'000
<b>Cost</b>				
At 1 August 2007	4,881	228	1,337	6,446
Additions		18		18
At 31 July 2008	4,881	246	1,337	6,464
Additions	-	54	-	54
Disposals	-	(67)	-	(67)
<b>At 31 July 2009</b>	<b>4,881</b>	<b>233</b>	<b>1,337</b>	<b>6,451</b>
<b>Amortisation</b>				
At 1 August 2007	1,038	51	64	1,153
Charge for the year	-	18	191	209
At 31 July 2008	1,038	69	255	1,362
Charge for the year	-	24	191	215
<b>At 31 July 2009</b>	<b>1,038</b>	<b>93</b>	<b>446</b>	<b>1,577</b>
<b>Net book amount</b>				
<b>At 31 July 2009</b>	<b>3,843</b>	<b>140</b>	<b>891</b>	<b>4,874</b>
At 31 July 2008	3,843	177	1,082	5,102
At 31 July 2007	3,843	177	1,273	5,293

All amortisation charges are included within administration expenses in the income statement.

#### Goodwill

The Group's goodwill at 31 July 2009 was attributable to several cash generating units (CGUs), the majority relating to 3g which was acquired on 30 March 2007. The remaining goodwill relates to VoIP technology acquired with several business purchased in 2006. Whilst these businesses have subsequently been discontinued or disposed of the Directors are satisfied that the corresponding goodwill has remained within Group and having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to an impairment charge in respect of this acquired goodwill.

Goodwill is not amortised, but is reviewed annually for indications of impairment or more frequently if there are indications that it may be impaired in accordance with IAS 36. Testing of impairment is carried out by allocating goodwill to the relevant CGU and assessing the recoverable amount for each CGU based on value in use calculations. These calculations use cash flow projections based on forecast operating results for the current period and budgeted operating results for the subsequent period. Cash flows for a further three years are extrapolated using a 2.5 % growth rate. The key assumptions in these projections are the rate of revenue growth and the discount rate.

Revenue growth rates are based on past experience and management's expectations of future changes in the Group's business and market.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 9. Intangible assets (continued)

A pre-tax discount rate of 10.0%, derived from the Group's weighted average cost of capital, has been used in discounting the projected cash flows and calculating the terminal value at the end of year four.

Impairment reviews were performed at the date of transition to IFRS and at the subsequent reporting period ends, namely 31 July 2007, 31 July 2008, and 31 July 2009. Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to an impairment charge.

#### Acquired software

Acquired software that meets the recognition criteria of IAS 38 - Intangible assets - is capitalised at cost. It is amortised on a straight line basis over its estimated useful economic life, which is 3 years.

#### Other acquired intangible assets

Assets in this class are amortised over their estimated useful lives on a straight line basis. This class comprises one category, being customer contracts and relationships, which arose on the acquisition of 3g.

Customer contracts and relationships have estimated useful lives of up to seven years. The expected useful lives are an estimate and are not secured by any legal obligations on the customers to continue with the Group for any finite period.

### 10. Inventories

	31 July 2009 £'000	31 July 2008 £'000
Finished goods and goods for resale	608	456

### 11. Trade and other receivables

	31 July 2009 £'000	31 July 2008 £'000
<b>Current</b>		
Trade receivables	3,301	4,247
Less provision for impairment of receivables	(1,927)	(1,975)
Trade receivables - net	1,374	2,272
Net investment in finance leases	299	119
Prepayments and accrued income	1,480	1,399
Other receivables	917	162
	<b>4,070</b>	<b>3,952</b>
<b>Non-current</b>		
Trade and other receivables	199	797
Net investment in finance leases	960	-
Trade and other receivables	<b>1,159</b>	<b>797</b>

# Notes to the Financial Information for the year ended 31 July 2009

## 11. Trade and other receivables (continued)

### Trade receivables

Trade receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Provision is made where there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

All credit risk relating to the balance of £5,229,000 at 31 July 2009 is held in the UK Amounts relating to credit risk held outside the UK, in respect of the discontinued Network Services business, have been fully provided against.

The ageing of trade receivables at the balance sheet date was:

	2009			2008		
	Continuing £'000	Discont'd £'000	Total £'000	Continuing £'000	Discont'd £'000	Total £'000
Current (not overdue)	446	-	446	1,448	-	1,448
Less than 31 days overdue	400	-	400	434	-	434
More than 30 days but less than 91 days overdue	128	-	128	152	-	152
More than 90 days overdue	848	1,479	2,327	668	1,545	2,213
Trade receivables - gross	1,822	1,479	3,301	2,702	1,545	4,247
Less provision for impairment of receivables	(448)	(1,479)	(1,927)	(430)	(1,545)	(1,975)
Trade receivables - net	1,374	-	1,374	2,272	-	2,272

The majority of the provision for impairment relates to receivable balances attributable to the discontinued Network Services business. These amounts continue to be pursued legally by the Group notwithstanding they are fully provided.

The movement in the allowance for impairment of trade receivables and net investment in finance leases during the year was as follows:

	2009			2008		
	Trade receivables £'000	Net investment in finance leases £'000	Total £'000	Trade receivables £'000	Net investment in finance leases £'000	Total £'000
Balance at start of year	1,975	609	2,584	2,433	-	2,433
Arising during the year	191	-	191	794	609	1,403
Utilised	(222)	-	(222)	(1,199)	-	(1,199)
Released	(17)	(345)	(362)	(53)	-	(53)
Balance at end of year	1,927	264	2,191	1,975	609	2,584
Less included in Non-current Trade and other receivables	-	(264)	(264)	-	-	-
Included in Current Trade and other receivables	1,927	-	1,927	1,975	609	2,584

# Notes to the Financial Information

## for the year ended 31 July 2009

### 11. Trade and other receivables (continued)

#### *Finance lease receivables*

The leasing portfolio of the Group's customer financing operations comprises financing of products related to its product offerings. The term of the contract stock is approximately 25 quarters. All contracts carry a fixed interest rate and include renewal options.

At 31 July 2009 the gross investment and unearned finance revenues were £2,379,000 (2008: £924,000) respectively. These balances relate to the continuing business.

At the balance sheet date, the gross investment and present value of receivables relating to future minimum lease payments under non-cancellable finance lease agreements were as follows:

Expected maturity	Gross investment £'000	2009	Gross investment £'000	2008
		Present value of future minimum lease payments £'000		Present value of future minimum lease payments £'000
Within one year	464	299	155	155
Between one and five years	1,779	1,142	688	528
Greater than five years	136	82	81	45
	<b>2,379</b>	<b>1,523</b>	924	728
Less included in Non-current Trade and other receivables	<b>(1,915)</b>	<b>(1,224)</b>	-	-
Included in Current Trade and other receivables	<b>464</b>	<b>299</b>	924	728

Provision is made in the financial statements where the expected receipts are assessed by management as being less than the value of the net investment in finance leases recognised in the balance sheet. As at 31 July 2009 the provision totalled £264,000 (2008: £609,000).

#### *Other receivables*

During the previous year a loan was advanced to Mr G Moat, the Group's Chief Executive. A loan agreement was subsequently formalised and ratified by shareholders that required repayment of the loan by 24 July 2009. At 31 July 2009 the balance remaining outstanding on this loan was £879,000, which included interest of £44,000 charged at 0.3% greater than the Group's cost of borrowing up to 24 July 2009 and 3.0% greater than the Group's cost of borrowing thereafter. Charges of £38,000 incurred by the Group in relation to the loan have also been recharged to the Director's loan in accordance with the loan agreement.

On the completion of the sale of BNS Group plc to Daisy Group plc this loan will be repaid in full and accordingly the Directors believe it is now fully recoverable within 12 months of the balance sheet date.

#### **Non-current trade and other receivables**

A corporation tax liability of £199,000, under S419 of the Income & Corporation Taxes Act 1988, relating to the outstanding Director's loan has been recognised and disclosed within Trade and other payables. This amount is recoverable 12 months after the end of the accounting period in which the loan is repaid and as such a corresponding equal amount is included here as a receivable.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 12. Borrowings

	2009 £'000	2008 £'000
<b>Current</b>		
Bank overdrafts	-	109
Bank loan	2,216	3,513
Finance lease and hire purchase obligations	298	302
	<b>2,514</b>	<b>3,924</b>
<b>Non-current</b>		
Bank loan	-	-
Finance lease and hire purchase obligations	249	391
	<b>249</b>	<b>391</b>
<b>Total borrowings</b>	<b>2,763</b>	<b>4,315</b>

Details of the borrowing facilities in place at 31 July 2009 are as follows:

#### Bank loan facility

On 30 March 2007 the Group entered into a £4.7 million 4 year bank loan arrangement to fund the acquisition of 3g. The loan was drawn down in one amount on 30 March 2007 and was repayable in equal monthly instalments. Interest is being charged at a floating interest rate of between 1.5% and 3.75% above Bank Base Rate.

On 7 May 2009 the Group's bank facilities were amended with the revised terms comprising a term loan of £2.8 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly instalments over 14 months with this facility subject to review in March 2010. Both facilities are repayable on demand

The Group has entered into an interest rate hedge arrangement whereby the interest on £3.0 million of the total facility cannot be outside the range of 6.0% to 6.75% over the term of the facility. This facility amortises in line with the loan repayments.

The bank loan facility is secured by a fixed and floating charge over certain assets of the Group.

#### Working capital facility

The Group has a £1.0 million (2008: £1.0 million) overdraft facility for working capital purposes. At 31 July 2009 £nil of this facility was utilised (2008: £109,000).

#### Finance lease and hire purchase obligations

The Group has a £0.5 million (2008: £0.7 million) finance lease facility available. Amounts due under finance leases and hire purchase contracts are payable as follows:

	2009			2008		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	£'000	£'000	£'000	£'000	£'000	£'000
Less than one year	333	35	298	333	31	302
Between one and five years	285	36	249	431	40	391
	<b>618</b>	<b>71</b>	<b>547</b>	<b>764</b>	<b>71</b>	<b>693</b>

All finance lease and hire purchase arrangements are secured over the assets to which they relate.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 13. Trade and other payables

	2009	2008
	£'000	£'000
Trade payables	3,423	3,583
Social security and other taxes	932	954
Accruals	2,318	2,554
	<b>6,673</b>	<b>7,091</b>

### 14. Financial instruments

#### Fair values of financial assets and liabilities

The Group's principal financial instruments during the year comprised cash, cash equivalents, loans and an interest rate hedge instrument as described in note 12 above. Other financial assets and liabilities, such as trade receivables, net investments in finance leases and trade and other payables, arise directly from the Group's operating activities. The difference between book value and fair value of these financial instruments is not material.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivative financial instruments – the interest rate hedge instrument is valued using data provided by the financial counterparty to the instrument.

Floating rate borrowings – the fair value of floating rate borrowings approximates to carrying value because interest rates are at floating rates where repayments are reset to market rates at intervals of less than one year.

Fixed rate borrowings – the fair value of fixed rate borrowings, namely the finance lease and the hire purchase obligations, are estimated by discounting the future contracted cash flow using appropriate interest rates to net present value.

Trade and other receivables/payables – for these items with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

#### Maturity and interest risk profile of financial liabilities and assets

	2009				2008			
	Carrying amount	Contractual cash flows	Due within 1 year	Due within 1-5 years	Carrying amount	Contractual cash flows	Due within 1 year	Due within 1-5 years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Floating rate</b>								
Cash and cash equivalents	265	-	-	-	2	-	-	-
Bank overdraft	-	-	-	-	(109)	(109)	(109)	-
Bank loan	(2,216)	(2,294)	(2,294)	-	(3,513)	(4,105)	(3,513)	(592)
<b>Fixed rate</b>								
Finance lease and hire purchase obligations	(547)	(618)	(333)	(285)	(693)	(764)	(333)	(431)

# Notes to the Financial Information

## for the year ended 31 July 2009

### 14. Financial instruments (continued)

The Group holds cash balances which are subject to floating rates of interest. Whilst the rates of interests inherent in net investments in finance lease receivables are variable dependent on the credit worthiness of the end customer, once contracts are entered into the rate is fixed and there is no further exposure to interest rate changes.

#### Sensitivity analysis

At 31 July 2009 it is estimated that a movement of one percentage point in interest rates would impact the Group's profit before tax by approximately £3,000. Given the interest rate hedge in place, this impact on profit would be reduced should interest rates rise above 6.75%.

### 15. Financial risk management

The Group's operations expose it to a number of financial risks, the predominant risks being liquidity risk, credit risk and interest rate risk. The Group's overall risk management programme seeks to ensure sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably.

The Group regularly reviews its exposure to these risks and, where appropriate, will take action to minimise the impact of these risks on the business. Given the size of the Group the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The Group's finance department implements the policies set by the Board, with clearly defined authority and approval limits.

In accordance with its policy, the Group does not hold or use derivative financial instruments for trading or speculative purposes. Such instruments are only used to manage the risks arising from operating or financial assets or liabilities or highly probable future transactions.

#### Liquidity risk

Liquidity risk represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group actively forecasts, manages and reports its working capital requirements on a regular basis to ensure that it has sufficient funds for its operations. Significant items of capital expenditure require prior approval by the Board.

#### Credit risk

Credit risk arises because a counterparty may fail to perform its obligations. The Group is exposed to credit risk on financial assets such as cash balances, derivative financial instruments, trade and other receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts recognised in the balance sheet are net of appropriate allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Appropriate credit checks are undertaken on all potential customers before new contracts are accepted. Individual exposures are monitored with customers subject to credit limits to ensure the Group's exposure to bad debts is minimised. The Group's customers are spread across a wide range of industry and service sectors with the top 10 customers accounting for only 13.9% of revenues. The Group is therefore not exposed to material concentrations of credit risk on its trade receivables.

Credit risk associated with cash balances, derivative financial instruments and funding to purchase leased vehicles is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is deemed to be limited.

All institutions utilised by the Group require the advance approval of the Board.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 15. Financial risk management (continued)

#### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 July 2009 was £5,494,000 (2008: £4,370,000).

Credit exposure

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Trade receivables	<b>1,374</b>	2,272
Net investment in finance leases	<b>299</b>	119
Other receivables	<b>2,741</b>	959
Accrued income	<b>815</b>	1,018

See note 11 for further comment on trade receivables and net investment in finance leases. Other receivables include £20,000 in respect of supplier deposits which are not past due.

#### **Interest rate risk**

Interest rate risk comprises both the interest rate price risk that results from borrowing at fixed rates of interest and also the interest cash flow risk that results from borrowing at variable rates. At this time the majority of the Group's borrowings attract floating rates of interest and therefore the Group's principal interest risk is a cash flow risk. This risk is mitigated by the use of a derivative financial instrument to cap the interest rate on the majority of the outstanding bank loan (see note 12).

#### **Capital management**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

The Group manages its capital with the objective of ensuring that entities within the Group will be able to continue as going concerns while seeking to improve the return to stakeholders through the management of debt and equity balances.

As a result of the loans outstanding in favour of the Group's facility provider, Barclays Bank PLC, the continuing support of Barclays Bank PLC has been critical to the flexibility and scope with which the Group is able to manage its capital.

On 7 May 2009 the Group's bank facilities were amended with the revised facility comprising a term loan of £2.8 million and an overdraft facility of £1.0 million. These revised bank facilities provide the Group with secure funding. On completion of the sale of the Group to Daisy Group plc the facilities will be refinanced by facilities put in place by Daisy Group plc.

# Notes to the Financial Information for the year ended 31 July 2009

## 15. Financial risk management (continued)

The Board encourages employees to hold shares in the Company through the use a Company Employee Share Option scheme. Full details are given in note 19.

There were no changes to the Group's approach to capital management during the year.

## 16. Deferred tax

The movement in the Group's deferred tax asset and liability accounts are shown below:

	Derivative financial instruments £'000	Property, plant and equipment £'000	Employee benefits £'000	Losses £'000	Total assets £'000	Intangible assets £'000	Total liabilities £'000	Net £'000
At 1 August 2007	-	-	71		71	(364)	(364)	(293)
Recognised in income	-	-		304	304	52	52	356
At 31 July 2008	-	-	71	304	375	(312)	(312)	63
Recognised in income	17	166	(37)	(304)	(158)	52	52	(106)
Recognised in SORIE	-	-	(34)	-	(34)	-	-	(34)
<b>At 31 July 2009</b>	<b>17</b>	<b>166</b>	<b>-</b>	<b>-</b>	<b>183</b>	<b>(260)</b>	<b>(260)</b>	<b>(77)</b>

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2008: 28%).

At 31 July 2009 there were unrecognised deferred tax assets of £nil (2008: £nil) in respect of tax losses not recognised.

## 17. Provisions

	£'000
At 1 August 2008	40
Provisions used during the year	(40)
<b>At 31 July 2009</b>	<b>-</b>

The provision in respect of onerous lease arrangements was fully utilised during the year.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 18. Capital and reserves

#### Reconciliation of movements in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
At 1 August 2007	5,012	2,245	(3,939)	(3,301)	17
Total recognised income and expense	-	-	-	(2,344)	(2,344)
Equity-settled share-based payments	-	-	-	(35)	(35)
At 31 July 2008	5,012	2,245	(3,939)	(5,680)	(2,362)
Total recognised income and expense	-	-	-	778	778
Equity-settled share-based payments	-	-	-	39	39
<b>At 31 July 2009</b>	<b>5,012</b>	<b>2,245</b>	<b>(3,939)</b>	<b>(4,863)</b>	<b>(1,545)</b>

#### Share capital

	2009 £'000	2008 £'000
<b>Authorised</b>		
65,000,000 (2008: 65,000,000) ordinary shares of 10p	6,500	6,500
<b>Allotted, issued and fully paid</b>		
50,122,930 (2008: 50,122,930) ordinary shares of 10p	5,012	5,012

#### Share options over ordinary shares

At 31 July 2009 options to subscribe for 1,423,985 ordinary shares at prices between 27.0 pence and 54.0 pence were outstanding under the Company's two equity-settled share option schemes. Options outstanding under these schemes are exercisable at various times up to December 2017. Subsequent to the year end 2,147,000 of additional share options have been granted and 898,000 of the original options have been cancelled. See note 19 for further details in respect of the share option schemes.

#### Other reserves

Other reserves comprise a merger reserve which arose on the restructuring of the Group at the time of the admission to the Alternative Investment Market in November 2005 and a revaluation reserve created on the revaluation of freehold land and buildings. At 31 July 2009 the balance in respect of the revaluation reserve was £nil (2008: £nil).

# Notes to the Financial Information

## for the year ended 31 July 2009

### 19. Share-based payments

The Company operates two share option schemes for the incentivisation of the Executive Directors, the management team and employees of the Group. Share options are granted at the discretion of the Board.

The BNS Telecom Group plc Employee Share Option Scheme 2005 ('ESO') and the BNS Telecom Group plc Save As You Earn Scheme ('SAYE') were both established during the financial year ended 31 July 2006.

All share-based payments are equity settled and all awards and exercises are settled by the physical delivery of shares. The terms and conditions of all awards and grants made since 19 October 2005 are set out below. There were no options granted prior to this date.

Grant date	Scheme	No of instruments granted	Vesting conditions	Contractual life of option
17 November 2005	SAYE	644,806	Three years of service	3.5 years
17 November 2005	ESO	264,000	Three years of service plus satisfaction of performance conditions	10 years
31 October 2006	ESO	75,000	Three years of service plus satisfaction of performance conditions	10 years
31 May 2007	ESO	390,000	Three years of service plus satisfaction of performance conditions	10 years
3 December 2007	ESO	600,000	Three years of service plus satisfaction of performance conditions	10 years

### Performance criteria

The extent to which the ESO share options will vest is dependant primarily on the growth in the Group's basic earnings per share ('EPS') over a three year period. EPS has been selected as being the most appropriate, measurable performance target that links reward to shareholder interests, and is relevant to the current stage in the Group's development.

The performance criteria for the share grants require EPS compound growth rates between 3% and 25% per annum, dependant on the date of grant.

### Fair value of options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of the share options granted. The estimates of fair value of the services received is measured based on the Black-Scholes option pricing model. The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options) adjusted for any expected changes to future volatility. The expected life is the average expected period to exercise. The risk-free interest rate is the yield on zero-coupon UK government bonds of a five year term. Assumptions have been made to incorporate dividend yield and the effects of forfeiture using anticipated leaver rates. The calculations assume that the performance criteria attaching to the options are met in full.

The assumptions applied to options granted since 19 October 2005 are set out below:

# Notes to the Financial Information

## for the year ended 31 July 2009

### 19. Share-based payments (continued)

	<b>SAYE</b>	<b>ESO</b>	<b>ESO</b>	<b>ESO</b>	<b>ESO</b>
	<b>17 Nov 2005</b>	<b>17 Nov 2005</b>	<b>30 Oct 2006</b>	<b>31 May 2007</b>	<b>3 Dec 2007</b>
Share price at grant	54.0p	54.0p	42.5p	37.0p	27.0p
Exercise price	43.2p	54.0p	42.5p	36.0p	27.0p
Expected volatility	35%	35%	35%	35%	50%
Expected life of option (years)	3.3	4.5	4.5	4.5	4.5
Expected dividend yield	3.0%	3.0%	3.0%	3.0%	1.0%
Risk free interest rate	4.2%	4.2%	4.7%	5.5%	4.5%

The number and weighted average exercise prices of equity-settled share options are as follows:

	<b>Number</b>	<b>Wtd average</b>	<b>Number</b>	<b>Wtd average</b>
	<b>of options</b>	<b>exercise price</b>	<b>of options</b>	<b>exercise price</b>
	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
Outstanding at the beginning of the period	<b>1,423,985</b>	<b>26.9p</b>	2,596,890	26.9p
Granted during the period	-	-	600,000	27.0p
Lapsed during the period	-	-	(1,772,905)	21.0p
Outstanding at the period end	<b>1,423,985</b>	<b>37.1p</b>	1,423,985	37.1p
Exercisable at the period end	-	-	-	-

There were no share options exercised in the year ended 31 July 2009 (2008: nil). The options outstanding at 31 July 2009 have an exercise price in the range of 27.0 pence to 54.0 pence and a weighted average remaining contractual life of 7.9 years. Subsequent to the year end 2,147,000 of additional share options have been granted and 898,000 of the original options have been cancelled.

For the year ended 31 July 2009 the total share option expensed was £39,000 (2008: credit £35,000), with a corresponding entry to retained earnings.

# Notes to the Financial Information

## for the year ended 31 July 2009

### 20. Cash generated from continuing operations

	2009 £'000	2008 £'000
Profit/(Loss) for the year	812	(2,344)
(Profit)/loss after tax on discontinued operations	(90)	1,434
Depreciation and other non-cash items:		
Depreciation	734	732
Amortisation of intangible assets	215	209
Loss on disposal of plant and equipment	24	48
Impairment loss	349	-
Share based payments	39	(35)
Changes in working capital:		
Increase in inventories	(152)	(143)
Increase in trade and other receivables	(362)	(410)
Increase in payables	252	957
Increase in deferred income	435	1,977
Finance revenue	(44)	(90)
Finance costs	709	435
Tax	366	(356)
<b>Cash generated from continuing operations</b>	<b>3,287</b>	<b>2,414</b>

### 21. Analysis of movements in net borrowings

	As at 1 August 2008 £'000	Cash flows £'000	Non-cash items £'000	As at 31 July 2009 £'000
Cash	2	263	-	265
Bank overdraft	(109)	109	-	-
Cash and cash equivalents	(107)	372	-	265
Bank loans	(3,513)	1,359	(62)	(2,216)
Finance leases and hire purchase contracts	(693)	406	(260)	(547)
<b>Net borrowings</b>	<b>(4,313)</b>	<b>2,137</b>	<b>(322)</b>	<b>(2,498)</b>

	As at 1 August 2007 £'000	Cash flows £'000	Non-cash items £'000	As at 31 July 2008 £'000
Cash	2,148	(2,146)	-	2
Bank overdraft	(52)	(57)	-	(109)
Cash and cash equivalents	2,096	(2,203)	-	(107)
Bank loans	(4,349)	1,175	(339)	(3,513)
Finance leases and hire purchase contracts	(495)	466	(664)	(693)
<b>Net borrowings</b>	<b>(2,748)</b>	<b>(562)</b>	<b>(1,003)</b>	<b>(4,313)</b>

# Notes to the Financial Information

## for the year ended 31 July 2009

### 22. Capital commitments

Amounts contracted for at the year end but not provided in the financial statements amounted to £326,000 (2008: £20,000).

### 23. Operating leases

Minimum lease payments under non-cancellable operating lease rentals are as follows:

	2009			2008		
	Land and buildings £'000	Vehicles, plant and equipment £'000	Total £'000	Land and buildings £'000	Vehicles, plant and equipment £'000	Total £'000
In one year or less	435	168	603	502	1	503
Between one and five years	1,693	336	2,029	1,607	-	1,607
More than five years	2,928	-	2,928	3,195	-	3,195
	<b>5,056</b>	<b>504</b>	<b>5,560</b>	<b>5,304</b>	<b>1</b>	<b>5,305</b>

### 24. Related parties

The Group has related party relationships with its subsidiaries (a list of principal subsidiary undertakings is shown in note 25) and with its Directors.

#### Transactions with key management personnel

The Directors make up the key management team, hence no further details are provided in respect of key management compensation. The Company has written service contracts or letters of appointment with each of its Directors, under which the Directors receive a salary or a fee and other emoluments. See the Directors' Remuneration Report on pages 11 to 12 for further information.

Details of total compensation received by the Directors in accordance with IAS 24 are as follows:

	2009 £'000	2008 £'000
Salaries and other short-term employee benefits	677	430
Post employment benefits	3	3
Termination benefits	39	126
Share-based payments	(25)	(25)
	<b>694</b>	<b>534</b>

Other long-term employee benefits in the period were £nil (2008: £nil).

In addition to the amounts above, payments were made to Mr B Moat of £44,000 and Ms M O'Reilly of £75,000 in respect of consultancy services provided during the year.

There were no other transactions with management personnel in either the current or preceding year other than the following:

During the year the Group had the following transactions with Moat Properties Limited, a company controlled by Mr G Moat:

Moat Properties Limited provided services in respect of general property maintenance and repairs to the Group's offices in the normal course of business and at an arms length basis with a total value of £5,000 (2008: £15,000). Loans amounting to £37,000 (2008: £68,000) were advanced to Moat Properties Limited and at the year end there was an amount of £nil (2008: £63,000) owing to the Group by Moat Properties Limited. The maximum outstanding during the year was £63,000 (2008: £63,000).

# Notes to the Financial Information

## for the year ended 31 July 2009

### 24. Related parties (continued)

During the previous year a loan was advanced to Mr G Moat, the Group's Chief Executive. A loan agreement was subsequently formalised and ratified by shareholders that required repayment of the loan by 24 July 2009. Under the terms of the loan agreement interest has been charged at 2.0% greater than the Group's cost of borrowing since 24 July 2009.

Included within receivables (note 11) are the following amounts relating to loans to Mr G Moat, and companies controlled by him.

	2009 £'000	2008 £'000
Amounts outstanding at start of period	797	7
Amounts advanced during the year	140	1,263
Amounts repaid during the year	(140)	(498)
Interest and charges	82	25
Amounts outstanding at end of period	879	797
Maximum outstanding during the year	937	797

On the completion of the sale of BNS Group plc to Daisy Group plc this loan will be repaid in full and accordingly the Directors believe it is now fully recoverable within 12 months of the balance sheet date

### 25. Group entities

Subsidiary	Proportion of ordinary shares held	Nature of business
BNS Telecom Limited	100%	Telecommunications
3g Comms Limited	100%	Telecommunications
3g Landline Limited	100%	Telecommunications
BNS Mobile Limited	100%	Telecommunications
UK Telecoms Limited	90%	Telecommunications
Modus Telecom Limited	98%	Telecommunications
EMC Partnership Limited	75%	Telecommunications
Excel Advance Limited	75%	Telecommunications
Citygate Telecom Limited	70%	Telecommunications

The companies above are the principal subsidiary undertakings at 31 July 2009. They are registered in England and Wales. A full list of Group Companies as at 31 July 2009 is available for inspection at the Company's registered office.

### 26. Events after the balance sheet date

On 18 February 2010 the Board of BNS Telecom Group plc and the Board of Daisy Group plc announced the terms of a recommended cash offer for the entire issued and to be issued share capital of BNS Telecom Group plc. The offer document which contains a letter from the Chairman of BNS setting out the background to and reasons for recommending the offer, will shortly be posted to BNS shareholders.

# Notes to the Financial Information

## for the year ended 31 July 2009

### **26. Events after the balance sheet date (continued)**

Prior to the announcement of the offer a Group reorganisation was completed, at the request of the purchaser, which resulted in the transfer out of the group of all dormant subsidiaries disclosed in note 25 (with the exception of BNS Telecom Limited, 3g Comms Limited and Modus Telecom Limited) following inter group transfers of all remaining assets in such companies to a newly formed wholly owned subsidiary in the group. The transfers, which were for nominal consideration of £1, were to a new company in which Garry Moat and Andrew Goldwater, Directors of BNS Telecom Group plc, hold an equal interest of 50%. Applications to strike off these companies are expected to be lodged with the Registrar of Companies in due course.

# Parent Company Balance Sheet

at 31 July 2009

		31 July 2009	31 July 2008 As restated
	Note	£'000	£'000
<b>Fixed assets</b>			
Investment in subsidiary undertakings	C	11,837	11,876
<b>Current assets</b>			
Debtors	D	900	900
<b>Creditors: amounts falling due within one year</b>	E	<b>(1,992)</b>	<b>(1,992)</b>
<b>Net current liabilities</b>		<b>(1,092)</b>	<b>(1,092)</b>
<b>Net assets</b>		<b>10,745</b>	<b>10,784</b>
<b>Capital and reserves</b>			
Share capital	G	5,012	5,012
Share premium	G	2,245	2,245
Share based payment reserve	G	20	59
Other reserves	G	2,669	2,669
Profit and loss account	G	799	799
<b>Total shareholders' equity</b>		<b>10,745</b>	<b>10,784</b>

These financial statements were approved by the Board on 18 February 2010 and were signed on its behalf by:

GG Moat

AG Goldwater

# Notes to the Financial Information – Parent Company

## **A Accounting policies**

### ***Basis of preparation***

The parent company financial statements have been prepared in accordance with applicable law, UK accounting standards and under the historical cost convention.

As permitted by the exemption in section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the cash flows of the Company are included within the published consolidated financial statements.

### ***Going concern***

The financial statements have been prepared on a going concern basis, based on the Directors' opinion, after making reasonable enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future.

### ***Taxation***

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by balance sheet date, except as otherwise required by FRS 19.

### ***Investments***

Investments held in subsidiaries in the Company balance sheet are included at cost together with any movement in the share-based payment reserve (see below), less provision for impairment.

### ***Classification of financial instruments held by the Company***

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligation upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with a part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

# Notes to the Financial Information – Parent Company

## A Accounting policies (continued)

### Share-based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted since 19 October 2005 are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options are granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where the forfeiture is only due to market based conditions.

Where options are granted to employees of subsidiaries of the Company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the Company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding movement in equity.

### Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## B Result for the year

The Company's result for the financial year was £nil (2008: profit of £864,000).

The average number of people employed by the Company (including Directors) during the year was 4 (2008: 4). None of the Directors received payment for their services from the Company, their remuneration being paid by other Group entities. Full details of the emoluments paid to the Directors can be found in the Directors' Remuneration Report on pages 11 to 12. The share-based payment expense was £nil (2008: £nil).

## C Investment in subsidiary undertakings

	2009	2008
	£'000	As restated £'000
Investments	11,837	11,876
		<b>£,000</b>
<b>Cost</b>		
At 1 August 2008		12,383
Share-based payment expense		(39)
At 31 July 2009		12,344
<b>Amounts provided</b>		
At 1 August 2008		(507)
Provided in year		-
At 31 July 2009		(507)
<b>Net book value</b>		
<b>At 31 July 2009</b>		<b>11,837</b>
At 31 July 2008		11,876

# Notes to the Financial Information – Parent Company

## C Investment in subsidiary undertakings (continued)

BNS Telecom Group plc has the following wholly owned subsidiaries:

<b>Subsidiary</b>	<b>Proportion of ordinary shares held</b>	<b>Nature of business</b>
BNS Telecom Limited	100%	Telecommunications
3g Comms Limited	100%	Telecommunications
3g Landline Limited	100%	Telecommunications
BNS Mobile Limited	100%	Telecommunications
UK Telecoms Limited	90%	Telecommunications

The companies above are the principal subsidiary undertakings at 31 July 2009. They are registered in England and Wales. A full list of Group companies as at 31 July 2009 is available for inspection at the Company's registered office.

## D Debtors

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Prepayments and accrued income	<b>900</b>	900

All debtors fall due for payment within one year.

## E Creditors: amounts falling due within one year

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Corporation tax	-	45
Accruals and deferred income	<b>5</b>	5
Amounts owed to group undertakings	<b>1,987</b>	1,942
	<b>1,992</b>	1,992

## F Borrowings

The Company has provided a cross guarantee to BNS Telecom Limited in respect of the Group's bank loan and overdraft facilities as detailed in note 12.

## G Capital and reserves

	<b>Share capital</b>	<b>Share premium</b>	<b>Share- based payment</b>	<b>Other reserves</b>	<b>Profit and loss account</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 August 2008	5,012	2,245	59	2,669	799	10,784
Loss for the period	-	-	-	-	-	-
Equity-settled share-based payments	-	-	(39)	-	-	(39)
<b>At 31 July 2009</b>	<b>5,012</b>	<b>2,245</b>	<b>20</b>	<b>2,669</b>	<b>799</b>	<b>10,745</b>

## H Commitments

At 31 July 2009 the Company had no operating lease or capital commitments (2008: £nil).

## Statement of Directors' Responsibilities – Parent Company

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 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 2006. 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.

# Independent auditors' report

## To the members of BNS Telecom Group plc

We have audited the parent company financial statements of BNS Telecom Group plc for the year ended 31 July 2009 which comprise the Balance Sheet and the related notes A to H. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 auditor's 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 explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### ***Scope of the audit of the financial statements***

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### ***Opinion on financial statements***

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### ***Opinion on other matter prescribed by the Companies Act 2006***

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditors' report

To the members of BNS Telecom Group plc

## ***Matters on which we are required to report by exception***

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## ***Other matter***

We have reported separately on the group financial statements of BNS Telecom Group plc for the year ended 31 July 2009.

Mark Hatton (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Newcastle upon Tyne