



BNS Telecom Group plc
Report and financial statements 2008



BNS Telecom Group is a leading telecoms provider and IP carrier to the UK Business market.

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Financial Highlights

- Revenue from continuing operations increased by 23.9% to £32.48 million (2007: £26.2 million) following the acquisition of 3g in 2007
- Total deferred income increased to £3.33 million (2007: £1.36 million) as at 31 July 2008
- Underlying EBITDA* £130,000 (2007: £2.26 million) includes new customer acquisition costs but excludes deferred income of £1.97 million
- Reported net loss £2.3 million (2007: loss £3.55 million) including loss of £1.43 million from discontinued businesses (2007: loss on discontinued operations of £5.97 million)
- Strong cash generation from continuing operations of £2.41 million (2007: 2.16 million)
- Continuing strong net cash generation post year end, with net borrowings falling from £4.34 million at 31 July 2008 to £3.35 million on 30 November 2008
- Banking facilities agreed for a further 12 months

Operational Highlights

- Customer numbers increased by 15% to 10,201 as at 31 July 2008
- 50% of customer contracts have terms of between five to seven years at inception
- Total expected term revenue on the Group's contracts of fully installed IP-based products and services £13.2 million as at 22 January 2009, excludes as yet uninstalled order book of £4 million
- In excess of 1.5 million calls carried across the Group's IP switch every month

* Excluding discontinued business, exceptional items, share-based payments, amortisation of intangible fixed assets and profit on sale of property

Chief Executive's Report

The Board are pleased to announce that BNS has continued to deliver and build on the strong cash performance of the first half of the year and that the Group is well positioned to face the challenges of current economic conditions.

In 2007/08, BNS transformed from being mainly a SME telecoms reseller to being also a leading supplier of Internet Protocol (IP) products and services and mobile telephony. The strategic shift to IP telephony has also continued to translate into strong cash generation. Cash generated from continuing operations in the year to 31 July 2008 was £2.41 million (2007: £2.16 million).

As a complete telecoms carrier and service provider to the SME market, BNS is able to provide its customers with savings on their telecom spend as well as enhanced capability, flexibility and control over their communications. The economic downturn is likely to present good opportunities for further organic growth as businesses inevitably focus more on cost. Also, as Fixed Mobile Convergence (FMC) gathers pace ISDN will give way to IP telephony in the SME market. BNS is well positioned to take advantage of the opportunities this technology shift will present, as many of its competitors continue to focus on the UK fixed line reseller market.

In 2007/08, having developed a portfolio of leading IP products, BNS increased its investment in growing its customer base. Customer numbers have increased by 15% to 10,201 as at 31 July 2008 (31 July 2007: 8,898). With continued focus of the management on customer churn, the average monthly churn in the year to 31 July 2008 remained in line with 2007 levels at approximately 1.5% (2007: approximately 1.5%).

Group revenue increased by 24.4% to £32.60 million excluding an increase in deferred income of £1.97 million (2007: £26.20 million excluding discontinued operations). The Group adopts a prudent policy of expensing all customer acquisition costs immediately. As a result, the EBITDA for 2007/08 reflects the costs associated with the increased customer base but does not benefit from future contracted revenue streams. In addition, the release of deferred income on IP sales provides further forward visibility over earnings;

- A significant proportion of revenue associated with the cash received up front from sales of IP products is recognised over the term of the contract. Consequently, the stronger operating cash position is not necessarily yet reflected in the income statement. As at 31 July 2008, the level of deferred income in respect of IP sales was £1.93 million. The level of deferred income is expected to increase with further IP sales. As this then gets released to the income statement, an improvement in reported revenue and profits in 2009 is anticipated which will strengthen the Group's balance sheet.
- With 49.6% of customer contracts having terms at inception of between five and seven years, the Group has increased visibility over high levels of contracted recurring revenue.
- Total deferred income at 31 July 2008 was £3.33 million (2007: £1.36 million).

Underlying EBITDA was £130,000 (2007: £2.27 million). This is after charging the full costs of customer acquisition. Additionally, £1.97 million of revenue has been deferred representing this increase in deferred income of £1.97 million, as explained above.

The Group's mobile services operation 3g, which was acquired in March 2007, has now been fully integrated and has delivered a full year's revenue contribution of £10.53 million compared with a four month contribution of £3.34 million in 2007. Progress in cross-selling mobile services across the Group's customer base has been slower than anticipated and therefore the Board consider this to represent a considerable area of focus and opportunity during 2009.

The Network Services Division was closed in October 2007 and its associated costs and cash outflows are now eliminated from the Group. The acquisitions that resulted in the Network Services Division did enhance the Group's knowledge of the emerging IP technologies. However, with hindsight the acquisitions proved to be very disappointing both operationally and financially, absorbing significant management effort and considerable levels of funding over the last two years. Of the total loss for the financial year of £2.34 million, £1.43 million arose in the now fully discontinued operations.

With all Network Services related debt now cleared, together with the levels of cash forecast, the Board expects the Group's net borrowing position to significantly reduce over the next 12 months. This is evidenced in the four month period to 30 November 2008 which shows a reduction of £1.0 million to £3.35 million. The Board are pleased to confirm that the Group has recently agreed its banking facilities for a further 12 months.

Current trading and outlook

The Directors fully recognise the challenges within the marketplace, yet consider the Group to be well positioned with a number of important strengths which make it resilient during a period of economic downturn. In the current economic climate, most enterprises are looking to reduce, and more tightly manage, their operational costs whilst also exploiting new digital technologies. BNS' ability to provide a broad range of related business critical telecommunication services within a single bundled package at very competitive prices is proving very attractive to the market. With further cutting edge products expected to be launched early in 2009 as well as opportunities for greater efficiencies, the Board believe that the Group's prospects look increasingly favourable.

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.

The Group has reached a number of exciting milestones; in September 2008 the monthly volume of calls carried across its IP switch exceeded one million and by November 2008 this figure was in excess of one and a half million. Its contracted order pipeline for IP-based products and services is at record levels for the Group. This provides clear visibility over the Group's near term performance and cash generation whilst an increasing long-term contract base with its IP products and services considerably enhances its prospects.

The expected total term revenue from the Group's contracts of fully installed IP-based products and services was £13.20 million as at 22 January 2009, which excludes an as yet uninstalled order book of £4 million. By the end of January 2009 it is expected that the Group will have connected its one thousandth IP-based customer site.

I would like to sincerely thank our former Chairman, Graham Wilson, who stepped down in September 2008, for his substantial contribution over the last few years. I would also like to pay tribute to all of the management and staff within the Group who have contributed to the transformation of the business over the past 18 months during an extremely challenging time of change. I know I can rely on their support as we face the challenges and take the opportunities presented by the market.

Garry Moat

Chief Executive
28 January 2009

Business and Financial Review

Overview

In last year's Annual Report, the Board stated its belief that the development of BNS' IP telephony service would result in a transformation of BNS from "reseller" to "IP telecoms carrier" thereby enabling BNS to exploit the growing demand from SMEs for VoIP products and services.

In 2007/08, this strategic shift has been completed and now as an IP telecoms carrier, BNS is a complete service provider to the SME market. The Group is now able to offer a unique combination of cutting-edge IP-based products in addition to traditional lines and calls. This provides customers with significantly cheaper calls and enhanced features and benefits including payment for receiving inbound calls (an industry first). BNS' VoIP network and technology can be installed or integrated with existing telephone systems if required.

As a result, the Group has built on the performance reported at the half year. BNS convert many new customer orders into cash by introducing a third party finance company who lease the equipment to the end user. Accordingly, the success of the new technology IP-based products introduced during 2007 is driving strong cash generation from continuing operations.

In the context of the downturn in the economy the resilience of the business is especially important:

Strong customer proposition

- BNS offers its customers a strong proposition of saving them money and enhancing their capability, flexibility and control over their communications. As a result, the economic downturn presents considerable opportunities for further growth as companies focus more on cost.
- The business critical nature of the Group's products and services means that it is less vulnerable to cuts in business' discretionary expenditure.
- BNS provides a broad range of telecoms services from traditional lines and calls to broadband, mobile and IP telephony. As Fixed Mobile Convergence (FMC) gathers pace, ISDN will inevitably give way to IP telephony in the SME market. BNS is well positioned to take advantage of this and continues to develop new IP related products and services to meet its customers' future requirements.
- The Group has strong partner relationships with its suppliers who are top European businesses, providing confidence in the continuity of service to customers.

Robust business model

- BNS has a direct salesforce and now five months into the financial year 2008/09, BNS has the highest contracted order pipeline in its history. This order book provides clear visibility over short term growth performance and cash generation.
- The business is highly cash generative with £2.41 million generated from continuing operating activities in 2008 (2007: £2.16 million).

- Approximately 50% of the Group's customers are on contracts with terms of between five and seven years. This provides enhanced earning visibility of contracted recurring revenue streams. In addition, BNS has strong credit vetting processes and 65% of the Group's customers (excluding schools and charities) pay monthly by direct debit further reducing the Group's credit risk.
- Credit risk is further reduced as BNS' customers are spread across all industry and service sectors and the top 10 customers account for just over 10% of revenues.
- Deferred income in respect of IP-based sales of £1.93 million as at 31 July 2008, will be released to the Income Statement over the period of the contracts. All customer acquisition charges have already been expensed; therefore, as the deferred income is released it directly impacts EBITDA. The level of deferred income has continued to increase post year end with increased IP-based sales.
- In 2007/08, BNS invested in supporting an increase in sales volumes. The focus in 2009 is on improving operational efficiencies whilst continuing to grow the business.
- The Group has recently agreed the renewal of its banking facilities for a further 12 months. With the elimination of the costs associated with discontinued activities and the level of cash generation forecast, the Board expects the Group's net borrowing position to reduce significantly over the next 12 months from £4.34 million as at 31 July 2008. This is demonstrated by the net borrowing as at 30 November 2008 being £3.35 million.

Results and operating review

IFRS

This is the first year for which the Group is reporting under IFRS. Implementation of IFRS has had a minimal impact on the Group; the main effect being the alteration to the treatment of goodwill and other intangible assets. Prior period accounts have been restated under IFRS and reconciliations between UK GAAP and IFRS are shown in note 30.

Revenue and profit

Group revenue from continuing operations increased by 24.4% to £32.60 million (2007: £26.20 million). This improvement was due to the full 12 month contribution of 3g, which was acquired in March 2007.

The expected total term revenue from the Group's contracts of fully installed IP-based products and services was £6.9 million as at 31 July 2008. Of this amount, £3.28 million of cash had been received of which £1.35 million was recognised as income and £1.93 million carried forward in the balance sheet as deferred income. The remainder of the total expected value of £3.62 million, should be invoiced and received over the remaining term of the contract. Total deferred income, whilst not recognised in the income statement until future periods, increased strongly during the year, from £1.36 million at 31 July 2007 to £3.33 million at 31 July 2008, reflecting the growth in deferred revenues from IP-based hardware sales of £1.93 million which will be released over the life of contracts, many of which are up to seven years.

The level of deferred income is expected to increase as the Group grows its long-term contract base with its IP products and services. Other deferred income relates to fixed line and maintenance revenues for which the movement over the year was neutral.

Overall, Group gross margin slightly declined from 35.7% for the year ended 31 July 2007 to 33.5% for the year ended 31 July 2008 primarily due to the change in sales mix with more comparatively lower margin mobile sales. Strong cash flows on IP-based product sales do not fully translate to reported gross margin due to the impact of deferring some revenue but expensing the full cost of customer acquisition and sale. Overall, the traditional revenue streams of fixed line, calls traffic, hardware supply and maintenance have performed broadly in line with the Group's expectations despite the pressures arising from a highly competitive market.

Underlying EBITDA from continuing operations was £0.13 million (2007: £2.27 million). The decrease in reported operating profit to a loss of £0.9 million (2007: profit £2.52 million) reflects the change in sales mix towards IP-based products and the profit on sale of land and buildings in 2007 of £1.02 million. These sales of IP-based products include a significant amount of deferred income, as well as additional payroll and customer acquisition costs totalling £1.3 million as the Group grew its cost base to develop and market its wider product portfolio. Occupancy costs also increased by £0.4 million following the sale and leaseback of the property during 2007.

Net finance costs were £345,000 (2007: £307,000). The increase reflects the higher average net debt levels resulting mainly from the financing of the 3g acquisition and the funding of the cash outflows from the discontinued Network Services Division. The Group had a net tax credit of £356,000 (2007: £208,000) resulting from the recognition of a deferred tax asset in relation to current year losses.

As stated in the interim results on 30 April 2008, the Group closed its Network Services Division in late October 2007. The operating result of this discontinued operation has been disclosed separately as a single amount in the income statement and includes the outstanding closure charges, provisions and losses incurred by this unit during the first three months of the financial year.

The Group reported a net loss for the year of £2.30 million (2007: loss of £3.55 million).

Cash flow

BNS generated strong operating cash flow of £2.41 million (2007: £2.16 million) from its continuing operations. However, £2.32 million (2007: £3.03 million) was absorbed in the discontinued Network Services Division relating to losses during the first three months of the financial year and the unwinding of liabilities from the opening balance sheet. Separately the Group made a loan of £797,000 to its Chief Executive, Mr G Moat. Further details are provided below and in note 27 Related party transactions. As at 31 July 2008, Group net borrowings were £4.31 million (July 2007: £2.75 million).

Bank facilities

In January 2009 agreement was reached to amend the Group's bank facilities with the revised terms comprising a term loan of £3.15 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.

Loans to Director

During the 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 requires repayment of the loan by 24 July 2009. At 31 July 2008 the balance outstanding on this loan was £797,000, which includes interest of £21,000 charged at 0.3% greater than the Group's cost of borrowing.

The Board of Directors have considered the recoverability of the loan and in doing so have considered the financial assets, liabilities and cash flows of the debtor concerned. The Directors have concluded that the full balance of the loan will be recoverable, although in light of the illiquidity of current property and debt markets, it is recognised that there are uncertainties over the timing and method of repayment. The Directors are satisfied that there are a number of viable options available to Mr G Moat to source the funding necessary to repay the debt but that this may well not now occur before the end of July 2009. Accordingly, the Directors have reclassified the debtor as non-current, although the terms of the debt and due date of repayment remain unaltered.

Operating review

The IP-based suite of products was launched during 2007. In total nine new products have already been launched including, the Group's Hosted IP Centrex system, the BNS IP Smartbox and Call recording.

The Group's level of new sales orders has consistently grown. The average monthly contracted sales orders have been running at record levels for the Group throughout the financial year. This resulted in strong cash generation as well as developing a substantial pipeline of future business.

The BNS customer base has grown to 10,201 at 31 July 2008 compared with 8,898 at 31 July 2007. A broader product range and improvements in customer service have helped the Group keep customer churn levels comfortably below sector averages. Average monthly churn is in line with 2007 levels at approximately 1.5% (July 2007: 1.5%). The percentage of the customer base taking more than one service from the Group has also remained constant at over 86% (2007: 86%).

Business and Financial Review (continued)

Performance within the traditional revenue streams of fixed line access and calls and hardware supply and maintenance have remained broadly in line with the Group's expectations. The number of fixed lines connected by the Group was significantly boosted during the latter part of the year by the connection of over 4,000 lines across eight larger customers. The first of these lines were connected in July 2008 and together with separate agreements to supply mobile services to these customers the contracts are estimated to be worth in excess of £5 million in revenue over three years.

As the numbers of customers taking IP-based products continues to grow, there will inevitably be a proportion of existing fixed line customers who are re-signed on longer term IP-based product and services contracts. Despite this emerging trend, at 31 July 2008 the number of lines connected by the Group was still marginally ahead of the 2007 volume at 45,193 (2007: 44,467).

The acquisition of 3g in March 2007 provided BNS with an immediate increase in scale in the mobile market and progress has continued to be made across a range of key indicators. The business subscriber mobile base across the Group at 31 July 2008 was 15,560 (2007: 16,341) and has risen to 17,559 by 31 December 2008. The Group continues to have a strong relationship with Vodafone and its other key suppliers.

Despite the detrimental effect of industry wide pressure on tariffs from factors such as EU roaming price reductions, margins have remained strong. This strength has resulted from focussing on selling to high margin users. Further growth is expected to result from new products, competitive tariff offerings and also greater internal efficiencies. The Board also believes that the opportunity to cross-sell mobile products to the existing BNS customer base is still at a comparatively early stage of the process and represents considerable upside in 2009.

Owning its own IP-based network, BNS controls the routing of calls, thereby ensuring the quality of calls being made. Its Network Operations Centre continues to play an important role in supporting and developing the IP-based product offerings. The Group expects to continue to develop enhanced products and features based on the IP platform.

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, deferred income and Cash/Debt. Information on these metrics is contained within the Notes to the Financial Statements on pages 29 to 53.

Revenue by product is also included below to provide further useful information when interpreting the financial statements.

Revenue by product

	2008 (£m)	2007 (£m)
IP-based products and services (amount invoiced)	4.1	–
Less: deferred income	(1.9)	–
IP-based products and services revenue	2.2	–
Mobile services	11.3	4.9
Fixed line access and calls	16.7	18.0
Traditional PBX systems and maintenance	2.4	3.3
Total revenue	32.6	26.2

Management team

On 7 September 2007, Andrew Goldwater was appointed Group Finance Director, replacing David Horrocks who left BNS at that time. Andrew Goldwater is 34 years old and joined BNS in March 2007 having spent eight years with Ernst & Young where he reached senior manager level.

Subsequent to the year end 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.

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.

As highlighted in the Chief Executive's Report, 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 agreed in January 2009. The revised facility comprises a term loan of £3.15 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly instalments over 18 months with this facility subject to review in January 2010. Both facilities are repayable on demand. These agreed bank facilities are expected to provide the Group with adequate funding.

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 is mitigating 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 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, 65% of our customers (excluding schools and charities) pay monthly by direct debit. The risk is further reduced by the customer base being spread across all industry and service sectors. The top 10 customers account for just over 10% of revenues.

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.

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. With 49.6% of customer contracts having terms at inception of between 5 and 7 years the Group has increased security against competitor activity.

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.

Directors

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 sold his interests 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 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.

Directors' Report

The Directors present their Annual Report and audited Group financial statements for the year ended 31 July 2008.

Principal activities

The Group's principal activity continued to be that of supply and maintenance of telecommunication services and systems. The subsidiary undertakings principally affecting the results or net assets of the Group in the year are listed in note 28 to the financial statements. During the year, the Group has completed its shift in strategic direction towards the supply of Internet Protocol (IP) products and network services.

Review of the business

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial year ended 31 July 2008 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. 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 can be found in the Business and Financial Review and note 18. Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

Results and dividends

The Group loss for the year, after taxation, amounted to £2,344,000 (2007: loss of £3,548,000). The Directors do not recommend the payment of a dividend for the year ended 31 July 2008 (2007: £nil).

Political and charitable donations

The Group made no political donations and made donations of £10,000 (2007: £3,000) to various local charities in the year.

Major interests in shares

At 31 October 2008, 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	30,021,217	59.9
Credit Agricole Cheuvreux International Limited	2,846,619	5.7
Kaupthing Singer & Friedlander Limited	2,750,000	5.5
Mf Global K Limited	2,086,900	4.2
Mr R J Horton	1,731,162	3.5

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.

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 2008, the Group had an average of 38 days' purchases outstanding in trade creditors (2007: 39).

Directors' Report (continued)

Annual General Meeting

At the Annual General Meeting resolutions will be put to the meeting to cover the usual business to be transacted at such a meeting.

Resolution 1 is to receive the financial statements for the financial year ended 31 July 2008, together with the Reports of the Directors and Auditors thereon.

Resolutions 2 (a) is to reappoint Ernst & Young LLP as auditors and Resolution 2 (b) is to authorise the Directors to approve their remuneration.

Resolution 3 and 4 deal with the re-election of Directors. As Margot O'Reilly has been appointed as a Director since the last Annual General Meeting she is required to put herself forward for re-election by the shareholders at this meeting. Barry Moat is retiring by rotation under the provisions of the Articles of Association, but is putting himself forward for re-election. Brief biographies of these directors are set out on page 8 of the Annual Report.

Resolution 5 is to approve the Directors' Remuneration Report.

There are two additional resolutions which are being proposed at the Annual General Meeting. Resolution 6 is to disapply statutory pre-emption rights on the allotment of shares for cash in certain limited circumstances. Resolution 7 authorises the Company to purchase its own shares. This authority gives the Company greater flexibility in managing its capital resources. The Directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believe that the effect of such purchases would be to increase earnings per share and that the purchases were in the best interests of shareholders generally. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury so as to be sold at a later date subject to the restrictions set out in resolution 7 or its equivalent in force at the time. Resolution 7 specifies the maximum number of shares which may be purchased (representing 10% of the Company's current issued share capital), the minimum and maximum prices at which they may be bought and when the authority will expire. This limit is in line with investor protection guidelines. The maximum price at which the shares may be purchased is 5% above the average of the middle market values of those shares for the five business days before the purchase is made.

Auditors

A resolution to reappoint Ernst & Young LLP as Auditors will be put to the members at the Annual General Meeting.

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 8. 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
28 January 2009

Statement of Directors' Responsibilities

in Relation to the Group Financial Statements

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

The Directors are required to prepare Group financial statements for each financial year which present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing those Group financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes 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 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; and
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Director's Remuneration Report

Information not requiring audit

As an AIM listed 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 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. No bonuses were paid in 2008 or 2007.

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.

Savings related share option scheme:

The Company operates a share save scheme in which all employees and executive Directors, once they have been employed for a qualifying period, can participate. Monthly amounts are saved by employees who are granted options to subscribe for shares. Employees are then entitled to exercise options from three years following grant at a price of 43p per share for the options granted in 2005.

David Horrocks held options over 16,264 shares exercisable from 17 November 2008 at a price of 43p per share. Following his resignation on 6 September 2007, the savings have been withdrawn from the scheme and his options forfeited.

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 (audited)

The remuneration of the Directors is as follows:

	Basic salary and fees £000	Compensation for loss of office £000	Benefits in kind £000	Total 2008 £000	Total 2007 £000	Pension contributions 2008 £000	Pension contributions 2007 £000
Executive Directors							
Garry Moat ⁽¹⁾	229	–	16	245	168	–	–
Andrew Goldwater ⁽¹⁾⁽²⁾	100	–	–	100	–	3	–
David Horrocks ⁽¹⁾⁽³⁾	11	126	2	139	138	–	7
Mark Stewart ⁽¹⁾⁽⁴⁾	–	–	–	–	105	–	3
Non-executive Directors							
Graham Wilson	40	–	–	40	40	–	–
Barry Moat	32	–	–	32	32	–	–
	412	126	18	556	483	3	10

(1) The remuneration packages of each executive Director 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 23 May 2007.

Interests in options

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

	Exercise price	At 1 August 2007 No.	Granted during the year No.	Forfeited during the year No.	At 31 July 2008 No.
Andrew Goldwater	36.0p	75,000	–	–	75,000
Andrew Goldwater	27.0p	–	600,000	–	600,000
David Horrocks (executive share options)	16.18p	1,547,175	–	1,547,175	–
David Horrocks (savings related share option scheme)	43p	16,624	–	16,624	–

Following his resignation from the Board on 6 September 2007, all of David Horrocks share options have been forfeited.

Corporate Governance

BNS Telecom Group plc is listed on AIM and is not subject to the requirements of the revised Combined Code published in July 2003 on corporate governance, nor is it required to disclose its specific policies in relation to 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 8.

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 11.

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 Directors' Remuneration Report on pages 12 and 13.

Audit committee

The Audit Committee, which is chaired by Barry Moat, comprises both Non-executive Directors and meets not less than twice 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 (previously David Horrocks until his resignation on 6 September 2007).

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.

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 Chief Executive's Report and the Business and Financial Review on pages 2 to 7 include a detailed review of the business and planned future developments.

The executive Directors meet with the Company's institutional shareholders following the announcement of interim and final results and at other appropriate times. The Chief Executive ensures that the views of shareholders are communicated to the Board as a whole. The Directors are also in regular contact with stockbrokers' analysts. The Group has developed a website containing investor information to improve 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. The shareholders have further opportunities to make their views known through follow up interviews by the Company's brokers. 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;
- monthly reporting of performance against budget. Relevant action is then taken, including the preparation of updated forecasts for the year; and
- clearly defined lines of responsibility and delegation in respect of the supervision, authorisation and review of day to day transactions.

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.

Going concern

After making due enquiries, the Board has a reasonable expectation that 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.

The Board have undertaken a recent and thorough review of the Group's forecasts and associated risks and sensitivities. External specialist advice has been sought as part of this review and discussions have been held with the Group's bankers, suppliers and business asset finance lease providers. The extent of this review reflects the uncertain economic outlook for the UK economy taken as a whole, as well as the specific financial circumstances of the Group at this time. The review has identified that the Group's cash flow forecasts are particularly sensitive to adverse changes in its working capital cycle (debtor days and creditor days) and the continuing availability to the Group's customers of business asset lease finance and the ongoing support of the Group's bankers. The Board has concluded that the risk of materially adverse changes in any of these three areas is both unlikely and manageable.

Following this review, the Board has concluded that it has a reasonable expectation that 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. The monthly performance of the business and its forecasts are being regularly reviewed in detail. Should there be an unforeseen and material adverse change in any of the key sensitivities impacting on the Group's forecasts, the Board would seek to mitigate the impact by adopting different operating and funding strategies. This is further explained on pages 22 and 23 below.

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 2008 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, and the related notes 1 to 30. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of BNS Telecom plc for the year ended 31 July 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Report and the Business and Financial Review that is cross referred from the Principle Activities section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Highlights, Chief Executive's Report, Business and Financial Review, Directors and Advisors, Corporate Governance, Directors' Remuneration Report, Directors' Report, Notice of Annual General Meeting and Board of Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion :

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 July 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Ernst & Young LLP

Registered auditor
Newcastle Upon Tyne
28 January 2009

Notes:

- a) The maintenance and integrity of the BNS Telecom Group plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual report since it was initially presented on the web site.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 July 2008

	Note	2008 £'000	2007 £'000
Revenue	1	32,597	26,201
Cost of sales		(21,719)	(16,838)
Gross profit		10,878	9,363
Distribution costs		(3,248)	(2,346)
Administrative expenses		(8,551)	(5,514)
Trading profit		(921)	1,503
Profit on disposal of property		–	1,018
Group operating (loss)/profit	2	(921)	2,521
Underlying EBITDA		130	2,267
Depreciation		(732)	(557)
Amortisation		(209)	(80)
Share-based payments		35	(52)
Exceptional costs	3	(145)	(75)
Profit on disposal of property		–	1,018
Group operating (loss)/profit		(921)	2,521
Finance income	6	90	21
Finance costs	6	(435)	(328)
(Loss)/profit before income tax and discontinued operations		(1,266)	2,214
Income tax credit	7	356	208
(Loss)/profit after tax before discontinued operations		(910)	2,422
Loss from discontinued operations after tax	4	(1,434)	(5,970)
Loss for the financial year		(2,344)	(3,548)
Attributed to:			
Equity holders of the parent		(2,344)	(3,525)
Minority interest		–	(23)
		(2,344)	(3,548)
		Pence	Pence
Earnings per share – continuing	8		
– basic earnings per share		(1.7)	4.8
– diluted earnings per share		(1.7)	4.6
– underlying basic EBITDA per share	8	0.3	4.5
Earnings per share – total	8		
– basic earnings per share		(4.6)	(7.0)
– diluted earnings per share		(4.6)	(7.0)

Consolidated Statement of Recognised Income and Expense

for the year ended 31 July 2008

	2008 £'000	2007 £'000
Deferred tax on share options	–	10
Income recognised directly in equity	–	10
Loss for the year	(2,344)	(3,548)
Total recognised income and expense for the year	(2,344)	(3,538)
Attributed to:		
Equity holders of the parent	(2,344)	(3,515)
Minority interest	–	(23)
	(2,344)	(3,538)

Consolidated Balance Sheet

at 31 July 2008

	Note	2008 £'000	2007 £'000
Assets			
Non-current assets			
Property, plant and equipment – at revaluation	10	479	479
Property, plant and equipment – at cost	10	1,672	1,697
Goodwill	11	3,843	3,843
Other intangible assets	11	1,259	1,450
Trade and other receivables	14	797	–
Deferred tax assets	19	375	71
		8,425	7,540
Current assets			
Inventories	13	456	316
Trade and other receivables	14	3,952	4,095
Current income tax receivable		–	132
Cash and cash equivalents		2	2,148
		4,410	6,691
Total assets		12,835	14,231
Liabilities			
Current liabilities			
Borrowings	15	(3,924)	(1,556)
Trade and other payables	16	(7,091)	(7,458)
Deferred income		(1,900)	(1,362)
Current income tax payable		(86)	–
Derivative financial instruments	17	(14)	(4)
		(13,015)	(10,380)
Net current liabilities		(8,605)	(3,689)
Non-current liabilities			
Borrowings	15	(391)	(3,340)
Deferred income		(1,439)	–
Deferred tax liabilities	19	(312)	(364)
Provisions	20	(40)	(130)
		(2,182)	(3,834)
Total liabilities		(15,197)	(14,214)
Net (liabilities)/assets		(2,362)	17
Capital and reserves			
Share capital	21	5,012	5,012
Share premium	21	2,245	2,245
Other reserves	21	(3,939)	(3,939)
Retained earnings	21	(5,680)	(3,301)
Total shareholders' (deficit)/equity		(2,362)	17

These financial statements were approved by the Board of Directors on 28 January 2009 and were signed on its behalf by:

Garry Moat

Andrew Goldwater

Consolidated Cash Flow Statement

for the year ended 31 July 2008

	Note	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash generated from continuing operations	23	2,414	2,156
Interest received		63	21
Interest paid on bank loans and overdrafts		(21)	(268)
Interest element of finance lease payments		(44)	(52)
Tax received/(paid)		218	(226)
Cash flow from operating activities in continuing operations		2,630	1,631
Cash flow from operating activities in discontinued operations		(2,318)	(3,033)
Total cash flow from operating activities		312	(1,402)
Cash flows from investing activities			
Purchase of property, plant and equipment		(190)	(1,443)
Proceeds from sale of property		–	4,804
Proceeds from sale of plant and equipment		99	–
Acquisitions (net of cash acquired)	12	–	(3,307)
Amounts loaned to Director	27	(1,263)	(44)
Amounts repaid by Director	27	498	37
Purchase of intangible assets		(18)	(159)
Cash flow from investing activities in continuing operations		(874)	(112)
Cash flow from investing activities in discontinued operations		–	–
Total cash flow from investing activities		(874)	(112)
Cash flows from financing activities			
Increase in bank loans	15	–	5,777
Repayment of bank loans	15	(1,175)	(3,808)
Capital element of finance lease payments		(466)	(476)
Dividends paid	9	–	(251)
Cash (outflow)/inflow from financing activities in continuing operations		(1,641)	1,242
Cash flow from financing activities in discontinued operations		–	–
Total cash (outflow)/inflow from financing activities		(1,641)	1,242
Net decrease in cash and cash equivalents			
Cash and cash equivalents at start of period		2,096	2,368
Cash and cash equivalents at end of period	24	(107)	2,096

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 1985 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 54 to 60.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and in preparing an opening IFRS balance sheet at 1 August 2006 for the purposes of transition to IFRS.

Transition to IFRS

The Group is preparing its financial statements in accordance with IFRS for the first time and accordingly has applied IFRS 1 – First-time adoption of International Financial Reporting Standards. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 30.

In accordance with the requirements of IFRS 1, the Group is subject to certain exemptions from the full requirements of IFRS in the transition period. Consequently, IFRS 3 – Business Combinations has not been applied retrospectively to business combinations that took place prior to 1 August 2006.

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 Group's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Group's financial results, its cash flows, liquidity requirements and borrowing facilities are set out in the Business and Financial Review on pages 4 to 7 and elsewhere within the financial statements. In addition notes 17 and 18 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.

The financial statements at 31 July 2008 show that the Group generated a loss from continuing operations of £0.9 million with cash generated from continuing operations of £2.4 million. The financial statements also show that at 31 July 2008 the Group balance sheet was in a net liability position of £2.4 million with net current liabilities of £8.6 million.

The Group has generated positive operating cash inflows from continuing operations for each of the last two years to 31 July 2008 and in the six months since the year end. The main factors contributing to these cash inflows are the retention and growth of the customer base, terms of trade with customers and suppliers and the continuing ability of many customers to obtain business asset lease finance for the products which they contract to obtain from the Group. The continuing availability of this business asset lease finance allows customers to pay upfront for a considerable element of the products supplied by the Group. Should the availability of business asset lease finance to the Group's customers be significantly restricted, or the Group's bankers withdraw support, the Group's funding and operating strategy would come under great pressure, potentially requiring significant changes to the operating and financing model. However the Board have concluded that no matters have come to its attention which suggests that the Group will not be able to maintain its current terms of trade with customers and suppliers nor that there will be a shortage of available business asset lease finance nor that the Group's bankers will withdraw their ongoing support. The Board have considered various alternative operating and funding strategies should these be necessary and are confident that these present viable options to allow the Group to continue as a going concern should they be necessary.

In January 2009 agreement was reached to amend the Group's bank facilities with revised terms comprising a term loan of £3.2 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly installments over the coming 18 months, with this facility subject to review in January 2010. Both facilities are repayable on demand.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, indicate that the Group has sufficient funding to operate within the level of this revised facility. The Directors have considered options available should repayment of the bank facilities be demanded or should the facility not be renewed on acceptable terms in January 2010. These options include the sale of assets and / or restructuring the Group's operations and seeking alternative sources of external funding. The Directors are satisfied that these revised operating and funding strategies could be adopted if and when necessary.

Based on the information set out above the Directors believe that it is appropriate to prepare these financial statements on the going concern basis.

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:

Receivables

Debts are recognised 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 where recoverability is uncertain.

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 recognised 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.

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.

Principal Accounting Policies (continued)

Basis of consolidation (continued)

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 acquired 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

Freehold land and buildings are recognised initially at cost and thereafter stated at valuation, less depreciation and any impairment charged subsequent to the last valuation. Interim assessments are performed between full valuations whenever there are indications of material change in value. Surpluses arising from the valuations of properties are taken directly to the revaluation reserve in equity, with the exception of surpluses on properties which reverse a previous impairment recognised in the income statement, which are credited to the income statement. Deficits are eliminated against any revaluation surplus in respect of that property with any excess being charged to the income statement. Surpluses or deficits realised on the disposal of an asset are transferred from the revaluation surplus to retained earnings.

All other classes of property, plant and equipment are stated at cost less accumulated depreciation less any provision for impairment. Depreciation is calculated to write down the cost or valuation less estimated residual value on a straight line basis 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.

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 net of any provision estimated as required for the risk of customer default with the balance between this net receivable and the total amounts receivable under the contract deferred to future periods as unearned finance income.

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.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight line basis.

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.

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	– expected life of the customer contract
Customer contract and relationships	– expected useful life of the customer relationship being 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.

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 their nominal value as reduced by appropriate allowances for estimated adjustments arising in settlement.

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.

Principal Accounting Policies (continued)

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.

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 or 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.

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 and installation – revenue and related costs from the sale and installation of hardware is recognised in the income statement when the significant risks and rewards of ownership have passed to the buyer, usually on installation.

Hardware leased to customers – where hardware 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.

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. Any discounts in respect of maintenance services are recognised in the year in which the discount is granted.

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.

Commission – finance commission receivable from business asset finance leasing companies is recognised at its fair value at the date of inception of the associated lease.

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.

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.

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.

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 22.

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.

Principal Accounting Policies (continued)

Share-based payments (continued)

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/credit 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. 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.

Adopted IFRS not yet applied

Certain new standards, amendments and interpretations to existing standards that have been published and which are mandatory for the Group's future accounting periods and which are applicable to the Group, but which have not been early adopted include:

- IFRS 8 'Operating Segments: Disclosure'
- IAS 1 'Presentation of financial statements (revised 2007)'
- IFRS 3 'Business combinations (revised 2008)'

The Directors consider that the adoption of these standards in future periods will have no material financial impact on the consolidated financial statements other than the revised approach to accounting for business combinations under IFRS 3. IFRS 3 will apply to any acquisitions made during the year ending 31 July 2010 and thereafter.

Application of these standards will result in some changes in presentation of information within the consolidated financial statements.

Notes to the Financial Information

for the year ended 31 July 2008

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 (loss)/profit before net finance costs and tax

This is arrived at after charging/(crediting):

	Continuing £'000	Discontinued £'000	2008 Total £'000	Continuing £'000	Discontinued £'000	2007 Total £'000
Staff costs (note 5)	7,339	149	7,488	5,180	916	6,096
Depreciation of property, plant and equipment						
– Owned assets	595	–	595	357	283	640
– Leased assets	137	–	137	200	–	200
Amortisation of intangibles						
– Acquired intangibles	191	–	191	64	–	64
– Software	18	–	18	16	7	23
Exceptional costs (see note 3)	145	–	145	75	2,483	2,558
Loss on disposal of plant and equipment	48	–	48	–	–	–
Profit on disposal of property	–	–	–	(1,018)	–	(1,018)
Operating lease rentals payable						
– Plant and machinery	32	–	32	1	–	1
– Property	433	–	433	172	89	261

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 2008 is set out below:

	2008 £'000	2007 £'000
Audit services – Statutory audit	73	93
Taxation services	11	5
Other services	19	–
	103	98

Included in the Group audit fees and expenses paid to the Group's auditors is £5,000 (2007: £5,000) paid in respect of the Parent Company.

Fees for other services relate primarily to work in connection with the transition to International Financial Reporting Standards and review of the interim financial statements (2007: £nil).

In addition, fees of £nil (2007: £51,000) for services in respect of acquisitions were paid to the auditors but not charged against operating profit. Total fees paid to the auditors were £103,000 (2007: £149,000).

Notes to the Financial Information for the year ended 31 July 2008 (continued)

3. Exceptional costs

Exceptional costs are analysed as follows:

	Continuing £'000	Discontinued £'000	2008 Total £'000	Continuing £'000	Discontinued £'000	2007 Total £'000
Employee related expenses	145	–	145	–	–	–
Impairment of goodwill	–	–	–	–	1,038	1,038
Impairment of property, plant and equipment	–	–	–	–	669	669
Restructuring charges	–	–	–	75	646	721
Onerous lease provision	–	–	–	–	130	130
	145	–	145	75	2,483	2,558

In the year ended 31 July 2008 exceptional costs of £126,000 were incurred in respect of a compensation for loss of office payment made to a Director. See the Directors' Remuneration report on page 13.

Exceptional costs of £2,558,000 were incurred during the year ended 31 July 2007 which related primarily to the Network Services division, and which are disclosed within discontinued operations.

4. Discontinued operations

The discontinued operations comprise the trading activities of the Network Services business which was closed on 29 October 2007. The results of the year ended 31 July 2007 has therefore been restated to show this operation as discontinued. The loss from discontinued operations after tax is analysed as follows:

	2008 £'000	2007 £'000
Revenue	2,150	8,710
Cost of sales	(2,421)	(8,623)
Gross profit	(271)	87
Operating costs	(1,163)	(5,754)
Operating loss	(1,434)	(5,667)
Closure and associated costs	–	(303)
Loss before income tax	(1,434)	(5,970)
Income tax expense	–	–
Loss after tax	(1,434)	(5,970)

Basic and diluted earnings per share in respect of discontinued operations were a loss of 2.9 pence and 11.9 pence for the years ended 31 July 2008 and 31 July 2007 respectively.

5. Employees

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

	Continuing £'000	Discontinued £'000	2008 Total £'000	Continuing £'000	Discontinued £'000	2007 Total £'000
Wages and salaries	6,484	131	6,615	4,498	808	5,306
Social security costs	840	17	857	576	103	679
Other pension costs	50	1	51	54	5	59
Share-based payments	(35)	–	(35)	52	–	52
	7,339	149	7,488	5,180	916	6,096

	Continuing Number	Discontinued Number	2008 Total Number	Continuing Number	Discontinued Number	2007 Total Number
Corporate and administration	60	–	60	50	–	50
Sales and customer service	131	–	131	104	–	104
Technical and engineering	40	3	43	39	17	56
	231	3	234	193	17	210

Details of the Directors' remuneration and compensation are set out in the Directors' Remuneration Report on pages 12 to 13 and in note 27.

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 (2007: £10,000).

6. Finance income and costs

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Interest income on bank balances	90	21
Interest on bank loans and overdrafts	(377)	(268)
Other interest payable	(4)	(4)
Interest on obligations under finance leases and hire purchase contracts	(44)	(52)
Mark to market loss in respect of derivative financial instruments	(10)	(4)
	(435)	(328)
Finance costs – net	(345)	(307)

7. Taxation

(a) Analysis of charge for the year:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Current tax		
UK Corporation tax	–	–
Adjustments in respect of prior years	–	(160)
	–	(160)
Deferred tax (note 19)		
Credit for the year	(300)	(46)
Deferred tax release relating to Intangible fixed assets	(52)	–
Adjustments in respect of prior years	(4)	(2)
	(356)	(48)
Total tax credit	(356)	(208)
Less tax charge included within discontinued operations	–	–
Total tax credit in the income statement	(356)	(208)

Notes to the Financial Information
for the year ended 31 July 2008 (continued)

7. Taxation (continued)

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

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Deferred tax charge on share options	–	10

(c) Reconciliation of total tax charge for the year

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Loss before tax (including discontinued operations)	(2,700)	(3,756)
Loss before tax multiplied by the rate of corporation tax in the UK of 28% (2007: 30%)	(756)	(1,126)
Effect of:		
Disallowables	55	404
Losses carried forward not recognised	–	494
Losses relating to discontinued business	401	–
Losses brought forward	–	(7)
Deferred tax losses not recognised	–	213
Prior year deferred tax overprovision	(4)	(2)
Prior year corporation tax overprovision	–	(160)
IFRS deferred tax movement	(52)	16
Other	–	(40)
Total tax credit reported in the income statement	(356)	(208)

(d) Factors that may affect future tax charges

To the extent that tax losses carried forward can be utilised against profits from the same trade, future tax costs will be reduced.

8. Earnings per share

(a) Continuing

The calculation of continuing basic earnings per share is based on the loss for the period after taxation but before discontinued operations and a weighted average number of ordinary shares outstanding during the period as follows:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
(Loss)/profit for the period	(910)	2,422
	Shares '000	Shares '000
Weighted average number of shares – basic	50,123	50,123

(b) Total

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period as follows.

	2008 £'000	2007 £'000
Loss for the period	(2,344)	(3,548)
	Shares '000	Shares '000
Weighted average number of shares – basic	50,123	50,123

(c) Diluted

The calculation of diluted earnings per share in respect of continuing operations for the year ended 31 July 2008 and the total Group for the years ended 31 July 2007 and 31 July 2008 is the same as the basic earnings per share as calculated above. There is no difference as the exercise of options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33.

The diluted earnings per share in respect of continuing operations for the year ended 31 July 2007 has been calculated using the same numerators as set out in (a) and (b) above and by reference to the following number of shares:

	2007 Shares '000
Number of shares per basic earnings per share calculations	50,123
Effect of shares under option	2,597
Weighted average number of shares – diluted	52,720

(d) Underlying basic EBITDA per share

A reconciliation of the results for the periods used to calculate basic earnings per share to underlying EBITDA used to calculate the underlying basic EBITDA per share is set out below:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Loss for the period	(2,344)	(3,548)
Net finance costs	345	307
Depreciation and amortisation	941	637
Share-based payments	(35)	52
Exceptional costs	145	75
Profit on disposal of property	–	(1,018)
Tax	(356)	(208)
Loss after tax in respect of discontinued operations	1,434	5,970
Underlying EBITDA	130	2,267

9. Dividends

No final dividend is to be paid in respect of the year ended 31 July 2008 (2007: £nil).

	2008 £'000	2007 £'000
Paid during the year		
Final dividend 2006: 0.05 pence	–	251

Notes to the Financial Information
for the year ended 31 July 2008 (continued)

10. Property, plant and equipment

	Freehold land and buildings £'000	Fixtures, fittings and office equipment £'000	Computer equipment £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost or valuation						
At 1 August 2006	1,449	875	1,665	1,600	1,774	7,363
Additions	995	389	185	105	–	1,674
Additions on business combinations	–	5	6	–	–	11
Transfer between categories	1,774	–	–	–	(1,774)	–
Disposals	(3,739)	–	–	(256)	–	(3,995)
At 31 July 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
Depreciation						
At 1 August 2006	27	258	772	521	–	1,578
Charge for the year	48	207	322	263	–	840
Impairment loss	–	276	393	–	–	669
Disposals	(75)	–	–	(135)	–	(210)
At 31 July 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
Net book value						
At 31 July 2008	479	516	181	975	–	2,151
At 31 July 2007	479	409	369	800	–	2,057
At 31 July 2006	1,422	617	893	1,079	1,774	5,785

All assets are recorded at cost, with the exception of freehold land and buildings, which are carried at valuation.

Included in the net book value of fixtures, fittings and office equipment and motor vehicles above, is an amount of £630,000 (2007: £676,000) in respect of assets held under finance leases and hire purchase contracts.

The property disposal above relates to the sale and leaseback of the Group's head office premises during the year ended 31 July 2007. The Group now leases the property under an operating lease agreement and, as such, is not exposed to the risks and rewards of ownership, those being substantially retained by the lessor.

The freehold land and buildings were last valued in February 2004 by an independent valuer. On the disposal of the property noted above, the entire remaining revaluation reserve within equity was transferred to retained earnings. At 31 July 2008 the revaluation reserve within equity was £nil (2007: £nil) with valuation of the remaining freehold land recorded at cost of £479,000 (2007: £479,000).

During the year ended 31 July 2007 fixtures, fittings and office equipment and computer equipment were impaired by £669,000 following the decision to discontinue the Network Services business. At this time an indication of impairment was identified. The asset impairments were determined by comparing the book value to the recoverable amount of the assets, represented by their value in use to the Group or expected disposal proceeds. The value in use was derived from discounted cash flow projections using a nominal pre-tax discount rate of 12.0%. A long term growth rate consistent with industry averages of 2.5% was assumed.

11. Intangible assets

	Goodwill £'000	Acquired software £'000	Customer related intangibles £'000	Total £'000
Cost				
At 1 August 2006	2,044	67	–	2,111
Additions	2,837	161	1,337	4,335
At 31 July 2007	4,881	228	1,337	6,446
Additions	–	18	–	18
At 31 July 2008	4,881	246	1,337	6,464
Amortisation				
At 1 August 2006	–	28	–	28
Charge for the year	–	23	64	87
Impairment charge	1,038	–	–	1,038
At 31 July 2007	1,038	51	64	1,153
Charge for the year	–	18	191	209
At 31 July 2008	1,038	69	255	1,362
Net book amount				
At 31 July 2008	3,843	177	1,082	5,102
At 31 July 2007	3,843	177	1,273	5,293
At 31 July 2006	2,044	39	–	2,083

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

Goodwill

The Group's goodwill at 31 July 2008 was attributable to several cash generating units (CGUs), the majority relating to 3g which was acquired on 30 March 2007. The remaining goodwill is allocated over CGUs in respect of the businesses of Modus Telecom, acquired in 2005, and EMC Partnership, BNS Mobile, Billing Online and Citygate Telecom acquired in 2006 (collectively the "Network Services" companies). See note 12 for further details in respect of the 3g acquisition.

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.

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 and 31 July 2008. At 31 July 2007, following the decision to discontinue the Network Services business, an impairment of £1,038,000 was identified as required in respect of the non-VoIP element of goodwill acquired with the Network Services companies. The balance of goodwill carried forward relates to VoIP technology 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 as at 31 July 2008.

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.

Notes to the Financial Information for the year ended 31 July 2008 (continued)

11. Intangible assets (continued)

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 (see note 12).

Customer contracts and relationships have estimated useful lives of an average 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 beyond their current contract period.

12. Business combinations

Acquisition of 3g Comms Limited and 3g Landline Limited

On 30 March 2007, BNS Telecom plc acquired the whole of the issued voting share capital of 3g Comms Limited and 3g Landline Limited (together '3g') for a total consideration, including costs, of £4,848,000.

The fair values of the assets and liabilities acquired were as follows:

	Fair value £'000
Intangible assets:	
Customer contracts and relationships	1,337
Property, plant and equipment	11
Inventories	130
Receivables	998
Payables	(1,346)
Taxation:	
Current	(246)
Deferred	(364)
Cash and cash equivalents	1,599
Net assets acquired	2,119
Goodwill	2,729
Consideration	4,848

There are no differences between these fair values and the carrying value of 3g's assets and liabilities immediately prior to acquisition, save for intangible assets and the related deferred tax liability which have been recognised only with effect from the date of acquisition.

Application of IFRS 3 to the acquisition of 3g in March 2007 resulted in the identification of a separately identifiable intangible asset relating to customer contracts and relationships. Under IFRS these have been recognised separately in the balance sheet at their fair value at the date of combination. An intangible asset of £1,337,000 was reclassified out of the total goodwill in the 3g business of £3,702,000 reported under UK GAAP. A deferred tax liability of £364,000, arising on the recognition of the customer contracts intangible, was recognised in the balance sheet at the date of acquisition, with a corresponding debit to goodwill.

The customer contracts and relationships intangible asset is being written off on a straight line basis over the estimated useful economic life of 7 years.

The fair value of the purchase consideration is analysed as follows:

	Fair value £'000
Cash	4,675
Deferred consideration	50
Directly attributable costs	123
Consideration	4,848

The outflow of cash resulting from the acquisition is as follows:

	£'000
Cash	4,675
Directly attributable costs	123
Less: cash acquired	(1,599)
	3,199

13. Inventories

	31 July 2008 £'000	31 July 2007 £'000
Finished goods and goods for resale	456	316

14. Trade and other receivables

	31 July 2008 £'000	31 July 2007 £'000
Current		
Trade receivables	4,247	4,609
Less provision for impairment of receivables	(1,975)	(2,433)
Trade receivables – net	2,272	2,176
Net investment in finance leases	119	–
Prepayments and accrued income	1,399	1,715
Other receivables	162	204
	3,952	4,095
Non-current		
Other receivables – loan to a director	797	–

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 £4,749,000 at 31 July 2008 is held in the UK. Amounts relating to credit risk held outside the UK, in respect of the discontinued Network Services businesses, have been fully provided against.

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

	Continuing £'000	Discontinued £'000	2008 Total £'000	Continuing £'000	Discontinued £'000	2007 Total £'000
Current (not overdue)	1,448	–	1,448	751	26	777
Less than 31 days overdue	434	–	434	244	315	559
More than 30 days but less than 91 days overdue	152	–	152	211	191	402
More than 90 days overdue	668	1,545	2,213	1,003	1,868	2,871
Trade receivables – gross	2,702	1,545	4,247	2,209	2,400	4,609
Less provision for impairment of receivables	(430)	(1,545)	(1,975)	(315)	(2,118)	(2,433)
Trade receivables – net	2,272	–	2,272	1,894	282	2,176

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

Notes to the Financial Information for the year ended 31 July 2008 (continued)

14. Trade and other receivables (continued)

Trade receivables (continued)

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

	Trade receivables £'000	Net investment in finance leases £'000	2008 Total £'000	Trade receivables £'000	2007 Total £'000
Balance at start of year	2,433	–	2,433	1,170	1,170
Arising during the year	794	149	943	1,424	1,424
Utilised	(1,199)	–	(1,199)	(87)	(87)
Released	(53)	–	(53)	(74)	(74)
Balance at end of year	1,975	149	2,124	2,433	2,433

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 2008 the gross investment and unearned finance revenues were £924,000 (2007: £nil) and £656,000 (2007: £nil) 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	Present value of future minimum lease payments £'000
Within one year	155	155
Between one and five years	688	528
Greater than five years	81	45
	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 2008 the provision totalled £149,000.

Non-current trade and other receivables

During the year ended 31 July 2008 a loan was advanced to Mr G Moat, the Group's Chief Executive. A loan agreement in respect of the outstanding sum was subsequently formalised and ratified by shareholders that requires repayment of the outstanding loan by 24 July 2009. At 31 July 2008 the balance outstanding on this loan was £797,000, which includes interest of £21,000 charged at 0.3% greater than the Group's cost of borrowing.

The Board of Directors have considered the recoverability of the loan and in doing so have considered the financial assets, liabilities and cash flows of the debtor concerned. The Directors have concluded that the full balance of the loan will be recoverable, although in light of the illiquidity of current property and debt markets, it is recognised that there are uncertainties over the timing and method of repayment. The Directors are satisfied that there are a number of viable options available to Mr G Moat to source the funding necessary to repay the debt but that this may well not now occur before the end of July 2009. Accordingly, the Directors have reclassified the debtor as non-current, although the terms of the debt and due date of repayment remain unaltered.

15. Borrowings

	2008 £'000	2007 £'000
Current		
Bank overdrafts	109	52
Bank loan	3,513	1,175
Finance lease and hire purchase obligations	302	329
	3,924	1,556
Non-current		
Bank loan	–	3,174
Finance lease and hire purchase obligations	391	166
	391	3,340
Total borrowings	4,315	4,896

Details of the borrowing facilities in place at 31 July 2008 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 is repayable in equal monthly instalments. Interest is charged at a floating interest rate of between 1.5% and 3.75% above Bank Base Rate.

The Group has entered into an interest rate hedge arrangement whereby the interest on £3.0 million of the total facility of £4.7 million 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. The facility is subject to various financial covenants. At 31 July 2008 the Group had received a waiver in respect of any covenant breaches, pending renegotiation of the bank facilities.

In January 2009 the bank loan and overdraft facilities were renegotiated. Details of the new facility are set out in note 29 and in the Business and Financial Review.

Working capital facility

The Group has a £1.0 million (2007: £1.0 million) overdraft facility for working capital purposes. At 31 July 2008 £109,000 of this facility was utilised (2007: £52,000).

Finance lease and hire purchase obligations

The Group has a £0.7 million finance lease facility available. At 31 July 2008 £0.7 million of this facility was utilised. Amounts due under finance leases and hire purchase contracts are payable as follows:

	2008			2007		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than one year	333	31	302	363	34	329
Between one and five years	431	40	391	186	20	166
	764	71	693	549	54	495

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 2008 (continued)

16. Trade and other payables

	2008 £'000	2007 £'000
Trade payables	3,583	3,905
Social security and other taxes	954	1,102
Accruals	2,554	2,451
	7,091	7,458

17. 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 15 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

	Carrying amount £'000	Contractual cash flows £'000	Due within 1 year £'000	2008 Due within 1-5 years £'000	Carrying amount £'000	Contractual cash flows £'000	Due within 1 year £'000	2007 Due within 1-5 years £'000
Floating rate								
Bank overdraft	109	109	109	–	52	52	52	–
Bank loan	3,513	4,105	1,175	2,930	4,349	5,280	1,175	4,105
Fixed rate								
Finance lease and hire purchase obligations	693	764	333	431	495	549	363	186

Both cash and the net investment in finance lease receivables are subject to interest rates. Cash balances are subject to floating rates of interest, whilst finance lease receivables are subject to fixed rates of interest.

Sensitivity analysis

At 31 July 2008 it is estimated that a movement of one percentage point in interest rates would impact the Group's profit before tax by approximately £29,000. Given the interest rate hedge in place, this impact on profit would be reduced should interest rates rise above 6.75%.

18. 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.

In January 2009 the bank loan and overdraft facilities were renegotiated. For further comment in respect of liquidity risk and the new bank facility see the Business and Financial Review on pages 4 to 7, the basis of preparation and note 29.

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 less than 10% 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.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 July 2008 was £4,370,000 (2007: £5,465,000).

	2008 £'000	2007 £'000
Trade receivables	2,272	2,176
Net investment in finance leases	119	–
Other receivables	959	204
Accrued income	1,018	937
Cash and cash equivalents	2	2,148
	4,370	5,465

See note 14 for further comment on trade receivables and net investment in finance leases. Other receivables include a loan to director of £797,000 and £119,000 in respect of supplier deposits which are not past due.

Notes to the Financial Information for the year ended 31 July 2008 (continued)

18. Financial risk management (continued)

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 15).

Interest rate risk includes the cost of funds advanced by finance companies and the need to pass any rate increases onto customers. The Group has controls within the business to monitor these rates and is able to respond accordingly.

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 is critical to the flexibility and scope with which the Group is able to manage its capital.

In January 2009 the Group's bank facilities were amended with the revised facility comprising a term loan of £3.2 million and an overdraft facility of £1.0 million, both repayable on demand. These revised bank facilities provide the Group with adequate funding. See note 29 for further details.

The Directors acknowledge that the losses arising from the now discontinued Network Services business have weakened the capital base of the Group, as reflected in the net liability position as at 31 July 2008. The deferred revenue from IP-based product sales means that the cash position is not necessarily reflected in the income statement. As the growing level of deferred income is released to the income statement, an improvement in reported revenues and profits in 2009 is anticipated which will strengthen the Group's balance sheet.

The Directors intend that the Company should regularly distribute a proportion of its profits to Shareholders by way of dividend and/or share buybacks, subject to the requirements of the business and the availability of cash and distributable reserves.

The Board encourages employees to hold shares in the Company through the use of a Save As You Earn option scheme and the Company Employee Share Option scheme. Full details are given in note 22.

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

19. Deferred tax

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

	Employee benefits £'000	Losses £'000	Total assets £'000	Revaluation of property £'000	Intangible assets £'000	Property, plant and equipment £'000	Total liabilities £'000	Net £'000
At 1 August 2006	49	–	49	(51)	–	(36)	(87)	(38)
Recognised in income	12	–	12	–	–	36	36	48
Recognised in SORIE	10	–	10	–	–	–	–	10
Recognised in equity	–	–	–	51	–	–	51	51
Recognised on acquisition	–	–	–	–	(364)	–	(364)	(364)
At 31 July 2007	71	–	71	–	(364)	–	(364)	(293)
Recognised in income	–	304	304	–	52	–	52	356
At 31 July 2008	71	304	375	–	(312)	–	(312)	63

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007: 30%).

At 31 July 2008 there were unrecognised deferred tax assets of £nil (2007: £721,000) in respect of tax losses not recognised.

20. Provisions

	£'000
At 1 August 2007	130
Provisions used during the year	(90)
At 31 July 2008	40

The provision is in respect of onerous lease arrangements.

21. 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 2006	5,012	2,245	(3,821)	244	3,680
Total recognised income and expense	–	–	–	(3,515)	(3,515)
Equity-settled share-based payments	–	–	–	52	52
Realised revaluation surplus	–	–	(118)	169	51
Dividends paid	–	–	–	(251)	(251)
At 31 July 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)

Share capital

	2008 £'000	2007 £'000
Authorised		
65,000,000 (2007: 65,000,000) ordinary shares of 10p	6,500	6,500
Allotted, issued and fully paid		
50,122,930 (2007: 50,122,930) ordinary shares of 10p	5,012	5,012

Share options over ordinary shares

At 31 July 2008 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. No further options have been granted since the year end. See note 22 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 2008 the balance in respect of the revaluation reserve was £nil (2007: £nil).

Notes to the Financial Information for the year ended 31 July 2008 (continued)

22. 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
19 October 2005	ESO	1,547,175	Three years of service plus satisfaction of performance conditions	10 years
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:

	ESO 19 Oct 2005	SAYE 17 Nov 2005	ESO 17 Nov 2005	ESO 30 Oct 2006	ESO 31 May 2007	ESO 3 Dec 2007
Share price at grant	16.2p	54.0p	54.0p	42.5p	37.0p	27.0p
Exercise price	16.2p	43.2p	54.0p	42.5p	36.0p	27.0p
Expected volatility	35%	35%	35%	35%	35%	50%
Expected life of option (years)	4.5	3.3	4.5	4.5	4.5	4.5
Expected dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	1.0%
Risk free interest rate	4.3%	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:

	Number of options 2008	Wtd average exercise price 2008	Number of options 2007	Wtd average exercise price 2007
Outstanding at the beginning of the period	2,596,890	26.9p	2,320,394	26.4p
Granted during the period	600,000	27.0p	465,000	37.0p
Lapsed during the period	(1,772,905)	21.0p	(188,504)	45.0p
Outstanding at the period end	1,423,985	37.1p	2,596,890	26.9p
Exercisable at the period end	–	–	–	–

The weighted average fair value of options granted during the year was 10.8 pence (2007: 11.1 pence). There were no share options exercised in the year ended 31 July 2008 (2007: nil). The options outstanding at 31 July 2008 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.

For the year ended 31 July 2008 the total share option credit was £35,000 (2007: expense £52,000), with a corresponding entry to retained earnings.

23. Cash generated from continuing operations

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Loss for the year	(2,344)	(3,548)
Loss after tax on discontinued operations	1,434	5,970
Depreciation and other non-cash items:		
Depreciation	732	557
Amortisation of intangible assets	209	80
Loss on disposal of plant and equipment	48	–
Profit on disposal of property	–	(1,018)
Share based payments	(35)	52
Changes in working capital:		
(Increase)/decrease in inventories	(143)	87
(Increase)/decrease in trade and other receivables	(410)	752
Increase/(decrease) in payables	957	(764)
Increase/(decrease) in deferred income	1,977	(111)
Finance revenue	(90)	(21)
Finance costs	435	328
Tax	(356)	(208)
Cash generated from continuing operations	2,414	2,156

24. Analysis of movements in net borrowings

	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)
Net borrowings	(2,748)	(562)	(1,003)	(4,313)

Notes to the Financial Information
for the year ended 31 July 2008 (continued)

24. Analysis of movements in net borrowings (continued)

	As at 1 August 2006 £'000	Cash flows £'000	Non-cash items £'000	As at 31 July 2007 £'000
Cash	2,614	(466)	–	2,148
Bank overdraft	(246)	194	–	(52)
Cash and cash equivalents	2,368	(272)	–	2,096
Bank loans	(2,376)	(1,969)	(4)	(4,349)
Finance leases and hire purchase contracts	(722)	476	(249)	(495)
Net borrowings	(730)	(1,765)	(253)	(2,748)

25. Capital commitments

Amounts contracted for at the year end but not provided in the financial statements amounted to £20,000 (2007: £nil).

26. Operating leases

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

	2008			2007		
	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	502	1	503	478	36	514
Between one and five years	1,607	–	1,607	1,499	–	1,499
More than five years	3,195	–	3,195	3,489	–	3,489
	5,304	1	5,305	5,466	36	5,502

27. Related parties

The Group has related party relationships with its subsidiaries (a list of principal subsidiary undertakings is shown in note 28) 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 12 to 13 for further information.

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

	2008 £'000	2007 £'000
Salaries and other short-term employee benefits	430	466
Post employment benefits	3	10
Termination benefits	126	17
Share-based payments	(25)	10
	534	503

Other long-term employee benefits in the period were £nil (2007: £nil).

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 £15,000 (2007: £14,000). Loans amounting to £68,000 (2007: £67,000) were advanced to Moat Properties Limited and at the year end there was an amount of £63,000 (2007: £26,000) owing to the Group by Moat Properties Limited. The maximum outstanding during the year was £63,000 (2007: £26,000).

Included within receivables (note 14) are the following amounts relating to loans to Mr G Moat, and companies controlled by him. As disclosed in note 29, on 11 August 2008 these loans were consolidated and assumed by Mr G Moat:

	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Amounts outstanding at start of period	7	–
Amounts advanced during the year	1,263	44
Amounts repaid during the year	(498)	(37)
Interest charged	25	–
Amounts outstanding at end of period	797	7
Maximum outstanding during the year	797	39

The outstanding amount is due for repayment on 24 July 2008. Interest is charged at the Group's cost of borrowing plus 0.3% and is amended in line with changes in the Group's borrowing costs. Interest accrues over the life of the loan and is repayable on settlement of the outstanding principal.

During the year, Mr. G Moat held a 14% equity interest in The Optima Group Limited ("Optima"), a purchasing consultancy business. BNS Telecom Limited had a contract with Optima for the introduction of customers to the Group, via a joint marketing arrangement. During the year commissions totaling £74,670 (2007: £26,732) were paid to The Optima Group Limited. £28,593 was outstanding at 31 July 2008 (2007: £9,444). The Group also made sales of telecommunication services totaling £5,450 (2007: £1,557) to The Optima Group Limited in the ordinary course of business at normal market prices. £nil was outstanding at 31 July 2008 (2007: £111). Subsequent to the year end, on 17 December 2008, Mr. G Moat disposed of his full equity interest in The Optima Group Limited.

28. Group entities

Subsidiary	Nature of business
BNS Telecom Limited	Telecommunications
3g Comms Limited	Telecommunications
3g Landline Limited	Telecommunications
Modus Telecom Limited	Telecommunications
EMC Partnership Limited	Telecommunications
BNS Mobile Limited	Telecommunications
Excel Advance Limited	Telecommunications
UKTelecoms Limited	Telecommunications
Citygate Telecom Limited	Telecommunications

The companies above are the principal subsidiary undertakings at 31 July 2008. They are registered in England and Wales. A full list of Group Companies as at 31 July 2008 is available for inspection at the Company's registered office.

29. Post balance sheet events

Loan to Director

On 11 August 2008 the Group entered into a loan agreement with Mr G Moat, the Chief Executive, for an amount in aggregate of £797,048. This loan replaces the amounts outstanding in note 27 above and seeks to consolidate and regularise a number of unsecured loans made during 2008 to Mr G Moat and two entities connected with him: Moat Properties Limited and Moat Properties Partnership. On 11 August 2008, Mr G Moat assumed the loans outstanding from Moat Properties Limited and Moat Properties Partnership.

The loan is due for repayment on 24 July 2009 with the interest payable under similar terms to those on the previous loan.

This loan was ratified by the shareholders on 8 September 2008.

Revised bank facilities

In January 2009 agreement was reached to amend the Group's bank facilities with the revised terms comprising a term loan of £3.2 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly installments over 18 months with this facility subject to review in January 2010. Both facilities are repayable on demand.

Notes to the Financial Information for the year ended 31 July 2008 (continued)

29. Post balance sheet events (continued)

Revised bank facilities (continued)

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, indicate that the Group has sufficient funding to operate within the level of this revised facility.

These revised bank facilities are expected to provide the Group with adequate funding. The Group will open renewal negotiations with the facility provider in due course and has at this stage not sought any written commitment that the facility will be renewed. However, the Group has held discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

Should repayment of the bank facilities be demanded in the interim period or the Group not arrange ongoing funding in January 2010, the Group may not be able to continue as a going concern. However, at this time, these circumstances are not anticipated.

30. Transition to IFRS

As stated in the Principal Accounting Policies on pages 22 to 28, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out on pages 22 to 28 have been applied in preparing the financial statements for the year ended 31 July 2008, the comparative information presented in these financial statements for the year ended 31 July 2007 and in the preparation of an opening IFRS balance sheet at 1 August 2006, the Group's date of transition.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its prior basis of accounting, UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial performance and financial position is set out in the following tables and notes that accompany the tables. The transition to IFRS has not impacted the Group cash flow and hence the Group cash flow statement has not required restatement.

Reconciliation of loss for the year ended 31 July 2007

	Note	UK GAAP – as reported £'000	Effect of transition to IFRS £'000	IFRS £'000
Revenue	(h)	34,911	(8,710)	26,201
Cost of sales	(h)	(25,461)	8,623	(16,838)
Gross profit		9,450	(87)	9,363
Operating costs	(i)	(13,896)	6,036	(7,860)
Trading profit		(4,446)	5,949	1,503
Profit on disposal of property		1,018	–	1,018
Group operating profit		(3,428)	5,949	2,521
Underlying EBITDA		(903)	3,170	2,267
Depreciation	(j)	(872)	315	(557)
Amortisation	(j)	–	(80)	(80)
Share-based payments		(52)	–	(52)
Exceptional costs	(k)	(2,619)	2,544	(75)
Profit on disposal of property		1,018	–	1,018
Group operating profit		(3,428)	5,949	2,521
Finance income		21	–	21
Finance costs	(l)	(324)	(4)	(328)
(Loss)/profit before income tax and discontinued operations		(3,731)	5,945	2,214
Income tax credit/(expense)	(m)	196	12	208
(Loss)/profit after tax before discontinued operations		(3,535)	5,957	2,422
Loss from discontinued operations after tax	(h)	–	(5,970)	(5,970)
Loss for the financial year		(3,535)	(13)	(3,548)
Attributed to:				
Equity holders of the parent		(3,512)	(13)	(3,525)
Minority interest		(23)	–	(23)
		(3,535)	(13)	(3,548)

Reconciliation of equity

	Note	Opening balance sheet as at 1 August 2006			Closing balance sheet as at 31 July 2007		
		UK GAAP – as reported £'000	Effect of transition to IFRS £'000	IFRS £'000	UK GAAP – as reported £'000	Effect of transition to IFRS £'000	IFRS £'000
Assets							
Non-current assets							
Property, plant and equipment – at cost	(a)	4,402	(39)	4,363	1,722	(25)	1,697
Property, plant and equipment – at revaluation		1,422	–	1,422	479	–	479
Goodwill	(b)	2,044	–	2,044	4,754	(911)	3,843
Other intangible assets	(b)	–	39	39	152	1,298	1,450
		7,868	–	7,868	7,107	362	7,469
Current assets							
Inventories		270	–	270	316	–	316
Trade and other receivables		3,877	–	3,877	4,095	–	4,095
Current income tax receivable		–	–	–	132	–	132
Cash and cash equivalents		2,614	–	2,614	2,148	–	2,148
		6,761	–	6,761	6,691	–	6,691
Total assets		14,629	–	14,629	13,798	362	14,160
Liabilities							
Current liabilities							
Borrowings		(3,044)	–	(3,044)	(1,556)	–	(1,556)
Trade and other payables	(c)	(7,217)	(73)	(7,290)	(8,728)	(92)	(8,820)
Current income tax payable		(254)	–	(254)	–	–	–
Derivative financial instruments	(d)	–	–	–	–	(4)	(4)
		(10,515)	(73)	(10,588)	(10,284)	(96)	(10,380)
Net current assets		(3,754)	(73)	(3,827)	(3,593)	(96)	(3,689)
Non-current liabilities							
Borrowings		(300)	–	(300)	(3,340)	–	(3,340)
Deferred tax liabilities	(e)	(36)	(2)	(38)	–	(293)	(293)
Provisions		–	–	–	(130)	–	(130)
		(336)	(2)	(338)	(3,470)	(293)	(3,763)
Total liabilities		(10,851)	(75)	(10,926)	(13,754)	(389)	(14,143)
Net assets		3,778	(75)	3,703	44	(27)	17
Capital and reserves							
Share capital		5,012	–	5,012	5,012	–	5,012
Share premium		2,245	–	2,245	2,245	–	2,245
Capital redemption reserve		–	–	–	–	–	–
Other reserves	(f)	(3,770)	(51)	(3,821)	(3,939)	–	(3,939)
Retained earnings	(g)	268	(24)	244	(3,274)	(27)	(3,301)
Total shareholders' equity		3,755	(75)	3,680	44	(27)	17
Minority interest		23	–	23	–	–	–
Total equity		3,778	(75)	3,703	44	(27)	17

Notes to the Financial Information
for the year ended 31 July 2008 (continued)

30. Transition to IFRS (continued)

Notes to the reconciliation of equity and reconciliation of loss for the year ended 31 July 2007

The notes below identify the adjustments made from UK GAAP to IFRS for each line item in the restated consolidated balance sheets and income statement:

(a) Property, plant and equipment – at cost

	1 August 2006 £'000	31 July 2007 £'000
Software reclassified as intangible assets	(39)	(25)

Under IAS 16 certain items of software do not meet the criteria for recognition as property, plant and equipment and have been reclassified as intangible assets.

(b) Goodwill and other intangible assets

	1 August 2006 £'000	31 July 2007 £'000
Goodwill		
Goodwill arising since 1 August 2006 reclassified as purchased intangible assets	–	(1,337)
Reversal of amortisation charged since 1 August 2006		
– continuing operations	–	62
– discontinued operations	–	109
Adjustment resulting from recognition of deferred tax liability	–	364
Impairment of goodwill	–	(109)
	–	(911)
Other intangible assets		
Reclassified from property, plant and equipment	39	25
Reclassified from goodwill	–	1,337
Amortisation charged	–	(64)
	39	1,298

The Group has applied IFRS 3 to all business combinations that have occurred since 1 August 2006 (the date of transition to IFRS). As a result part of the goodwill which arose after that date under UK GAAP, relating to customer contracts and relationships, has been reclassified as purchased intangible assets.

Under UK GAAP goodwill was amortised on a straight-line basis over the anticipated useful economic life of the business acquired. Under IFRS goodwill is not amortised but measured at cost less impairment losses with an annual test for impairment. Accordingly, the carrying value of goodwill is frozen at 1 August 2006 (the date of transition to IFRS) and amortisation charged under UK GAAP since this date has been reversed.

A deferred tax liability arising on the recognition of the customer contracts intangible has been reflected with a corresponding adjustment to goodwill.

Under IAS 36 goodwill must be tested annually for impairment. In the UK GAAP financial statements for the year ended 31 July 2007 an exceptional goodwill impairment of £929,000 was recognised in respect of the discontinued Network Services business. As a result of the reversal of goodwill amortisation set out above in respect of this discontinued business, there is a corresponding increase in the impairment charge. The intangible asset in respect of customer contracts and relationships will be written off over 7 years on a straight-line basis, being the estimated useful economic life from the date of acquisition.

(c) Trade and other payables

	1 August 2006 £'000	31 July 2007 £'000
Holiday pay accrual	(73)	(92)

Previously no provision was made for holiday pay. IAS 19 requires that holiday accrued by employees, but not taken at the balance sheet date must be provided for.

(d) Derivative financial instruments

	1 August 2006 £'000	31 July 2007 £'000
Fair value of derivative financial instrument	–	(4)

IAS 39 requires all derivative financial instruments to be included in the balance sheet at fair value. The Group has one such instrument, a structured collar agreement taken out during 2007 to manage interest rate risk. This instrument does not qualify for hedge accounting and all movements in fair value have therefore been reflected within finance costs in the income statement.

(e) Deferred tax liabilities

	1 August 2006 £'000	31 July 2007 £'000
Changes in deferred taxation arising as a result of:		
– revalued assets	(51)	–
– reclassification of other intangible from goodwill	–	(364)
– holiday pay accrual	20	26
– share-based payments	29	45
	(2)	(293)

Under UK GAAP deferred tax is generally recognised on all timing differences that have originated but not reversed by the balance sheet date. The exception is the recognition of deferred tax assets, where recognition is limited to the extent which the Group anticipates making sufficient taxable profits in the future to absorb the reversal of underlying timing differences.

Under IFRS, deferred tax is accounted for using the balance sheet liability method in respect of temporary differences. These differences arise between the carrying amount of assets and liabilities in the balance sheet and their corresponding tax base. Deferred tax is not recognised on temporary differences arising from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transition where there is no effect on either the tax or accounting profit.

Deferred tax liabilities have been recognised in respect of customer contracts and relationships and accrued holiday pay (see (b) and (c) above). Under UK GAAP no deferred tax liability was recognised when the Group's freehold property was revalued in February 2004. IFRS requires that deferred tax is recognised on revaluation and accordingly a deferred tax asset has been reflected on the date of transition to IFRS.

In addition, IFRS requires deferred tax to be reflected on share-based payment expenses/(credits).

(f) Other reserves

	1 August 2006 £'000	31 July 2007 £'000
Deferred tax on revalued asset	(51)	–

The deferred tax adjustment in respect of the revalued assets is recognised as a debit to the revaluation reserve within other reserves.

Notes to the Financial Information
for the year ended 31 July 2008 (continued)

30. Transition to IFRS (continued)

(g) Retained earnings

	1 August 2006 £'000	31 July 2007 £'000
Impact of adjustments:		
– IFRS 3 – Business combinations	–	107
– IAS 36 – Impairment of goodwill	–	(109)
– IAS 19 – Holiday pay accrual	(73)	(92)
– IAS 12 – Recognition of deferred tax	49	71
– IAS 32/39 – Fair value of derivative financial instruments	–	(4)
	(24)	(27)

The above table shows the cumulative effect on retained earnings of the adjustments made on transition.

(h) Discontinued operations

Under IFRS 5, businesses which are discontinued through closure rather than sale are not disclosed as discontinued until closure is complete. The Network Services business ceased operation on 29 October 2007. The results of the Network Services business for the period from 1 August 2007 to 29 October 2007 and associated costs in respect of the closure of this business are therefore disclosed as discontinued operations in the year ended 31 July 2008, with the income statement for the year ended 31 July 2007 restated to show the results of this business and associated costs as discontinued.

The results of the Network Services business for the year ended 31 July 2007 reclassified as discontinued are as follows:

	31 July 2007 £'000
Revenue	8,710
Cost of sales	(8,623)
Gross profit	87
Operating costs	(6,057)
Operating loss	(5,970)
Underlying EBITDA	(3,189)
Depreciation	(299)
Exceptional costs	(2,482)
Operating loss	(5,970)

(i) Operating costs

	31 July 2007 £'000
Discontinued business – see note (h)	6,057
Holiday pay expense – see note (c)	(19)
Goodwill amortisation – see note (b)	62
Amortisation of other intangible assets – see note (b)	(64)
	6,036

(j) Depreciation and amortisation

	Depreciation £'000	Amortisation £'000
Discontinued business – see note (h)	299	–
Reclassification from property, plant and equipment to other intangibles	16	(16)
Amortisation of other intangible assets – see note (b)	–	(64)
	315	(80)

(k) Exceptional costs

	2007 £'000
Discontinued business – see note (h)	2,482
Goodwill amortisation – see note (b)	62
	2,544

(l) Finance costs

	2007 £'000
Movement in fair value of derivative financial instrument – see note (d)	(4)

(m) Income tax credit

	2007 £'000
Holiday pay expense – see note (e)	6
Share-based payments – see note (e)	6
	12

Statement of Directors' Responsibilities

in Relation to the Parent Company Financial Statements

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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Parent Company Balance Sheet

at 31 July 2008

	Note	31 July 2008 £'000	31 July 2007 As restated £'000
Fixed assets			
Investment in subsidiary undertakings	C	11,876	11,942
Current assets			
Debtors	D	900	–
Creditors: amounts falling due within one year	E	(1,992)	(1,987)
Net current liabilities		(1,092)	(1,987)
Net assets		10,784	9,955
Capital and reserves			
Share capital	G	5,012	5,012
Share premium	G	2,245	2,245
Share based payment reserve	G	59	94
Other reserves	G	2,669	2,669
Profit and loss account	G	799	(65)
Total shareholders' equity		10,784	9,955

These financial statements were approved by the Board on 28 January 2009 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 230 of the Companies Act 1985, 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. In accordance with FRS 8 – Related parties, the company is exempt from such disclosure requirements.

The financial statements have been restated for the year ended 31 July 2007 to reflect the requirements of FRS 20 – Share-based payment. This has resulted in an increase in the carrying value of investments in subsidiary undertakings of £94,000 at 31 July 2007 and a creation of a share-based payment reserve within equity of a corresponding amount. There is no impact on the profit for the period.

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. This is further explained on pages 22 and 23 above.

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.

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 Profit for the year

The Company's profit for the financial year was £864,000 (2007: £125,000). The auditor's remuneration comprised £5,000 (2007: £5,000) for the statutory audit and £nil (2007: £nil) for other services.

The average number of people employed by the Company (including Directors) during the year was 4 (2007: 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 12 to 13. The share-based payment expense was £nil (2007: £nil).

C Investment in subsidiary undertakings

	2008 £'000	2007 As restated £'000
Investments	11,876	11,942
		£,000
Cost		
At 1 August 2007 – as previously stated		12,324
Share-based payment adjustment (see note A)		94
At 1 August 2007 – as restated		12,418
Share-based payment expense		(35)
At 31 July 2008		12,383
Amounts provided		
At 1 August 2007		(476)
Provided in year		(31)
At 31 July 2008		(507)
Net book value		
At 31 July 2008		11,876
At 31 July 2007		11,942

BNS Telecom Group plc has the following wholly owned subsidiaries:

Subsidiary	Nature of business
BNS Telecom Limited	Telecommunications
3g Comms Limited	Telecommunications
3g Landline Limited	Telecommunications
BNS Mobile Limited	Telecommunications
UK Telecoms Limited	Telecommunications

The companies above are the principal subsidiary undertakings at 31 July 2008. They are registered in England and Wales. A full list of Group companies as at 31 July 2008 is available for inspection at the Company's registered office.

D Debtors

	2008 £'000	2007 £'000
Prepayments and accrued income	900	–

Notes to the Financial Information – Parent Company (continued)

All debtors fall due for payment within one year.

E Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Corporation tax	45	45
Accruals and deferred income	5	50
Amounts owed to group undertakings	1,942	1,892
	1,992	1,987

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 15.

G Capital and reserves

	Share capital £'000	Share premium £'000	Share-based payment £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At 1 August 2007 – as previously stated	5,012	2,245	–	2,669	(65)	9,861
Restatement (note A)	–	–	94	–	–	94
At 1 August 2007 – as restated	5,012	2,245	94	2,669	(65)	9,955
Profit for the period	–	–	–	–	864	864
Equity-settled share-based payments	–	–	(35)	–	–	(35)
At 31 July 2008	5,012	2,245	59	2,669	799	10,784

H Commitments

At 31 July 2008 the Company had no operating lease or capital commitments (2007: £nil).

I Post balance sheet event

In January 2009 agreement was reached to amend the Group's bank facilities with the revised terms comprising a term loan of £3.2 million and an overdraft facility of £1.0 million. The term loan is being repaid in equal monthly installments over 18 months with this facility subject to review in January 2010. Both facilities are repayable on demand.

These revised bank facilities are expected to provide the Group with adequate funding.

Independent Auditor's Report

to the members of BNS Telecom Group plc

We have audited the Parent Company financial statements of BNS Telecom plc for the year ended 31 July 2008 which comprise the Balance Sheet and the related notes A to I. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of BNS Telecom plc for the year ended 31 July 2008.

This report is made solely to the Company's Members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an 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

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Parent Company Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive's Report and Business and Financial Review that is cross referred from the Principle Activities section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. The other information comprises only the Highlights, Chief Executive's Report and Business and Financial Review, Directors and Advisors, Corporate Governance, Directors' Remuneration Report, Directors' Report, Notice of Annual General Meeting and Board of Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

Independent Auditor's Report (continued)

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 July 2008;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company financial statements.

Ernst & Young LLP
Registered auditor
Newcastle Upon Tyne
28 January 2009

1. The maintenance and integrity of the BNS Telecom plc web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directory

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5523489

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NE1 4QL

Solicitors

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