

4 April 2007

# BNS Telecom Group plc

## Interim Results for the six months ended 31 January 2007

BNS Telecom Group plc, one of the UK's leading providers of white labelled telecoms services to the UK SME and corporate market, publishes its interim results for the six months ended 31 January 2007.

### Highlights

- Group turnover up 37.8 per cent. to £15.84 million (2006: £11.50 million).
  - Business Reseller turnover up 16.0 per cent. in H1'2007 over H1'2006, and 8.2 per cent. over H2'2006.
  - Network Services turnover up 167.5 per cent. in H1'2007 over H1'2006, and 17.8 per cent. over H2'2006.
- Underlying operating profit increased to £689,000 (2006: £208,000).
- EBITDA increased to £1,053,000 (2006: £534,000).
- Profit before tax increased to £350,000 (2006: £117,000).
- Adjusted earnings per share increased to 0.80p (2006: 0.18p).
- Hosted IP platform launched in financial second quarter of 2007 with approximately 30 orders with a total value of over £900,000 secured to date.
- Long term service provider contract signed with Vodafone UK in March 2007.
- Recent acquisition of 3g Comms, adds 13,000 Vodafone subscribers.
- Development of WiDial 'VoIP on your mobile' product suite for launch in April 2007, with access to over 8,000 Wi-Fi hotspots throughout the UK.

### Graham Wilson, Chairman, said:

*"BNS is making good progress on a number of fronts with continued steady improvement in trading. The Group has successfully launched its hosted IP telephony product into the VoIP market place and is about to launch WiDial, a 'VoIP on your mobile' converged telecoms solution, in April 2007. We are excited about the prospects for both of these products.*

*"We are delighted to have entered into a long term contract with Vodafone and at the same time we have acquired 3g Comms who are a leading Vodafone service provider. We expect WiDial will strengthen our mobile telecoms offering allowing us to accelerate growth in this area.*

*"The steps we have taken over the last few months provide an excellent platform and we are building momentum for the future growth of the Group."*

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**Definitions**

H1'2007 means the financial half year from 1 August 2006 to 31 January 2007.

H1'2006 means the financial half year from 1 August 2005 to 31 January 2006.

H2'2007 means the financial half year from 1 February 2007 to 31 July 2007.

H2'2006 means the financial half year from 1 February 2006 to 31 July 2006.

## **Chairman's statement**

### **Strategic Overview**

I am pleased to announce the interim results for the six months ended 31 January 2007 which demonstrate a continuing improvement in the Group's trading performance.

We have delivered a number of strategically important initiatives in H1'2007 and completed the reorganisation of our operations into two distinct divisions:

The Business Reseller division comprises our direct selling operations, contracting directly with SME and corporate customers and managing the white label direct marketing relationships.

The Network Services division comprises the four acquisitions completed in 2006, together with Citygate, acquired in this period. The division generates revenue from international wholesale traffic management. The Citygate acquisition increases our reach into the European wholesale calling card market.

The core Business Reseller division has had a strong first half with particularly pleasing progress in the hardware and mobile areas. The Network Services division steadily improved its performance throughout the period. The division's new management team is now settled in and, although the division faces some challenges in the second half, the Board looks forward to continuing financial progress being made in the coming period.

The Network Services division has now completed the initial technical development of the Group's hosted IP telephony service. This was launched to the SME and corporate market by the Business Reseller division in the second quarter of the 2007 financial year and to date the Group has won approximately 30 customer orders, with a contract value of over £0.9 million. These contracts are typically for three, five and seven years, supplying customers with a range of bundled services such as calls, lines, broadband and hardware for a contracted monthly fee. Customers will benefit from low up-front costs, increased functionality through a rich suite of high-end PBX features and applications, and no need for internal or external PBX support. The hosted IP platform may provide the Group with a further highly visible, long term stable revenue stream. Customers who previously opted to buy traditional fixed line telephone hardware may decide to choose hosted IP telephony in its place.

In March 2007 the Group signed a service provider agreement with Vodafone UK which runs to December 2009. This contract will allow the Group to offer customers a broader range of mobile tariffs which in turn leads to a more compelling mobile telecoms solution to the SME and corporate market. The Board expects mobile services growth to accelerate as a result of the new contract.

### **Acquisitions**

BNS completed the acquisition of 70 per cent. of the share capital of Citygate Telecom Limited on 18 October 2006 for £100k. Citygate commenced trading in October 2006 and the incumbent management team has brought to the Group extensive experience and distribution contacts for the wholesaling of international calling cards in the European market.

On 30 March 2007 the Group completed the acquisition of the entire share capital of 3g Comms Limited and 3g Landline Limited (together '3g') for a total cash consideration of £4.76 million. Based in Birmingham and established in 2000, 3g has a service provider agreement with Vodafone UK, providing mobile voice and data solutions to 13,000 subscribers, primarily in the SME market. The business also sells a small amount of fixed line telecoms. 3g reported pre-tax profits of £0.76 million on turnover of £10.34 million for the year ended 31 December 2006 and had net assets amounting to £1.01 million at 31 December 2006, including cash of £1.4 million. The acquisition provides the Group with an immediate increase in scale in the mobile market as well as potential cross selling opportunities.

## Financial review

Group turnover for H1'2007 grew by 37.8 per cent. to £15.84 million. Group turnover grew by 10.7 per cent. compared with Group turnover for H2'2006.

	H1 2007	H1 2006	Growth
Turnover (£'m)			
Business Reseller	11.40	9.84	16.0%
Network Services	4.44	1.66	167.5%
	<u>15.84</u>	<u>11.50</u>	37.8%
Gross Profit (£'m)			
Business Reseller	4.40	3.47	26.8%
Network Services	0.63	0.32	96.9%
	<u>5.03</u>	<u>3.79</u>	32.7%
<i>Gross Margin (%)</i>			
Business Reseller	38.6	35.3	
Network Services	14.2	19.3	

The Group has continued to tightly control the overhead base. Overheads for the period include a full six months of the four businesses acquired in the previous financial year, together with overheads relating to the Citygate acquisition in October 2006. The Group generated EBITDA before exceptionals of £1.05 million compared with £0.53 million in H1'2006 and £1.00 million in H2'2006.

The Group incurred restructuring costs totalling £0.12 million resulting from staff reductions in both the Business Reseller and Network Services divisions. Annual payroll savings of approximately £0.30 million have resulted from the restructuring exercise.

Underlying operating profit for the period, before goodwill amortisation, restructuring costs and share based payment charge amounted to £0.69 million compared with £0.21 million in H1'2006 and £0.58 million in H2'2006.

The Group experienced a net operating cash outflow of £1.9 million in the period. Of the total outflow, £1.4 million is the result of funding working capital in the enlarged Network Services business. A further outflow of £0.8 million has arisen as the result of the timing of a payment to a major creditor which is expected to reverse in the second half of the financial year.

The Group invested £1.26 million in tangible fixed assets during the period. Of this total £0.95 million was invested to complete the Group's head office building in Low Prudhoe, Northumberland, and £0.20 million was invested in the Group's VoIP platform. Total expenditure on the Group's head office building amounted to £2.6 million. Capital expenditure is expected to reduce significantly in the second half of 2007.

Basic earnings per share increased to 0.53p (2006: 0.14p). Adjusted earnings per share, which excludes exceptional items and goodwill amortisation is 0.80p (2006: 0.18 p).

The Board expects the Group to pay a full year dividend in December 2007.

Group net debt has increased to £4.46 million at 31 January 2007. This includes an on-demand bank facility of £3.50 million drawn down to fund the development of the head office building. The Board is close to completing a long term funding arrangement for the new building thereby replacing the on-demand facility.

## Business Reseller Division

	<b>H1 2007</b>	<b>H1 2006</b>
Turnover (£'m)	11.40	9.83
Gross profit (£'m)	4.40	3.47
<i>Gross Margin (%)</i>	<i>38.6</i>	<i>35.3</i>

Business Reseller division turnover has grown to £11.40m, an increase of 16.0 per cent. over the same period in 2006 and 8.2 per cent. higher than H2'2006. Gross profit has increased to £4.40 million, a 26.8 per cent. increase on the same period in 2006 and a 7.3 per cent. increase on H2'2006. Overall gross margin has improved to 38.6 per cent. compared with 35.3 per cent. for the same period in 2006, slightly lower than 38.9 per cent. achieved in H2'2006.

	<b>H1 2007</b>	<b>H1 2006</b>
Fixed Line Turnover (£'m)	4.26	4.20
Lines volume	44,708	43,858

Fixed lines connected by the Group increased to 44,708 at 31 January 2007, compared with 43,908 and 43,858 at 31 July 2006 and 31 January 2006, respectively. Turnover grew by 1.4 per cent. to £4.26 million. Pricing has remained broadly neutral compared to 2006.

	<b>H1 2007</b>	<b>H1 2006</b>
Calls Traffic Turnover (£'m)	4.74	4.60

Calls revenue has increased by 3.0 per cent. to £4.74 million compared with H1'2006. The Group has continued to experience pricing pressure in a very competitive market and margins have reduced by approximately 4.0 per cent. between H1'2006 and H1'2007. The Group continues to negotiate with suppliers to reduce buy in costs.

	<b>H1 2007</b>	<b>H1 2006</b>
Hardware Supply and Maintenance Turnover (£'m)	1.77	0.92

The Group renewed its hardware and maintenance sales pitch in H2'2006 and sales have shown a sustained and significant improvement. Hardware turnover of £1.77 million has grown by 92.4 per cent. compared with H1'2006, and 36.2 per cent. compared with H2'2006.

	<b>H1 2007</b>	<b>H1 2006</b>
Mobile Turnover (£'m)	0.63	0.11
Subscribers	2,685	595

The Group has made significant progress in the mobile area of the business. Subscriber numbers have increased from 595 at 31 January 2006 to 1,403 at 31 July 2006 and 2,685 at January 2007. Mobile turnover has increased to £0.63 million. The Group was awarded a new service provider contract with Vodafone UK in March 2007. This will allow the Group to offer a broader range of mobile tariffs and services, which in turn should allow the Group to accelerate growth in mobile revenue.

The Business Reseller customer base has grown to 6,336 compared with 6,250 at 31 July 2006 and 6,111 at 31 January 2006. All current customers are now committed to spend a minimum of £25 per month resulting in the closure of 119 uneconomic customer accounts.

## Network Services Division

	H1 2007	H1 2006
Turnover (£'m)	4.44	1.66
Gross profit (£'m)	0.63	0.32
<i>Gross Margin (%)</i>	<i>14.2</i>	<i>19.3</i>

The Network Services division was restructured with a new management team under Mark Stewart. The division was strengthened in October 2006 by the acquisition of 70 per cent. of a start up company, Citygate Telecom Limited, for £100k, including costs. The incumbent management team of Citygate has extensive experience in the wholesaling of international calling cards in the European market. The division has established an improved cost base for the second half of 2007 but still faces some challenges as it manages the new product platforms.

Turnover for Network Services increased to £4.44 million (2006: £1.66 million) including turnover of £1.33 million from Citygate. The gross margin percentage achieved has reduced primarily as a result of the lower margin Citygate business. As traffic volumes grow the Group expects to be able to negotiate lower prices from its suppliers.

## Product Development

In February 2007 our first customers were connected to our hosted IP telephony service. The Network Services division is currently completing the technical development of the other components of our IP telephony product suite.

Customers will be able to avoid up-front capital and installation costs and reduce line and call costs through BNS's new SIP-based trunk service. This integrates legacy telephony customers into the IP network by providing IP connectivity for legacy PBX/KSU systems and access to VoIP features.

The Group will launch its first fixed and mobile converged telecoms product, WiDial, in April 2007. This is a low cost virtual mobile network using VoIP and Wi-Fi technology to enable business users to connect to the hosted IP telephony platform and to access other users and features using mobile phone devices, without connecting to GSM providers. WiDial PAYG combines calling card prepay technology with the low cost virtual mobile network allowing users to make low cost calls on a pay as you go basis. WiDial will be offered to customers through both the Business Reseller division, where it complements our existing mobile offering, and the calling card distribution channels developed by the Network Services division. The Group has contracted to provide Group customers access to over 8,000 Wi-Fi hotspots throughout the UK.

## Current trading and outlook

The Group is performing in line with the Board's expectations and we are encouraged by the performance of the business in the first half of 2007 and look forward to making further progress, from both a financial and a market perspective, in the second half of the year to 31 July 2007. The Board expects to see the benefits of the new acquisitions and products becoming even more visible in the first half of the financial year to 31 July 2008. The Group intends to pay a full year dividend in December 2007 in line with our progressive dividend policy.

**Graham Wilson**  
Chairman

**4 April 2007**

# BNS Telecom Group plc

## Group profit and loss account for the period ended 31 January 2007

	<i>Notes</i>	<i>(Unaudited) 6 months ended 31 January 2007 £'000</i>	<i>Restated (Unaudited) 6 months ended 31 January 2006 £'000</i>	<i>Restated Year ended 31 July 2006 £'000</i>
<b>Turnover</b>				
Continuing operations		14,514	9,833	20,373
Acquisitions	6	1,330	1,662	5,425
Total group turnover		15,844	11,495	25,798
Cost of sales		(10,815)	(7,705)	(17,416)
<b>Gross profit</b>		5,029	3,790	8,382
Net other operating expenses		(4,539)	(3,607)	(7,687)
<b>Group operating profit</b>		490	183	695
Continuing operations		490	104	639
Acquisitions	6	-	79	56
Total group operating profit		490	183	695

Analysed as:

Operating profit before operating exceptional items and amortisation of intangible fixed assets		689	208	792
Restructuring charges	2	(118)	-	-
FRS20 Share based payment charge	10	(28)	(15)	(42)
Amortisation of goodwill		(53)	(10)	(55)
Total group operating profit		490	183	695
Share of operating loss in associates		(28)	-	(11)
<b>Total operating profit: Group and share of associates</b>		462	183	684
Bank and other interest receivable		-	42	89
Interest payable and similar charges		(112)	(108)	(161)
<b>Profit on ordinary activities before taxation</b>		350	117	612
Tax on profit on ordinary activities	3	(108)	(41)	(220)
<b>Profit on ordinary activities after taxation</b>		242	76	392
Minority interest		23	(12)	(23)
<b>Profit for the financial period</b>		265	64	369

### Earnings per ordinary share (pence)

Basic	4	0.53p	0.14p	0.77p
Basic adjusted earnings per share	4	0.80p	0.18p	0.91p
Diluted	4	0.52p	0.14p	0.75p

# BNS Telecom Group plc

## Group balance sheet at 31 January 2007

	<i>(Unaudited)</i> <i>As at</i> <i>31 January</i> <i>2007</i> <i>£'000</i>	<i>Restated</i> <i>(Unaudited)</i> <i>As at</i> <i>31 January</i> <i>2006</i> <i>£'000</i>	<i>Restated</i> <i>As at</i> <i>31 July</i> <i>2006</i> <i>£'000</i>
<b><i>Fixed assets</i></b>			
Tangible assets	6,720	3,897	5,824
Intangible assets	2,262	1,054	2,172
	8,982	4,951	7,996
<b><i>Current assets</i></b>			
Stocks	243	218	221
Debtors	4,840	2,229	3,011
Cash at bank and in hand	706	3,626	2,614
	5,789	6,073	5,846
<b><i>Creditors: amounts falling due</i></b>			
within one year	(10,637)	(6,011)	(9,585)
<b><i>Net current (liabilities)/assets</i></b>	(4,848)	62	(3,739)
<b><i>Total assets less current liabilities</i></b>	4,134	5,013	4,257
<b><i>Creditors: amounts falling due</i></b>			
after one year	(158)	(1,363)	(300)
<b><i>Provisions for liabilities</i></b>	(36)	(41)	(36)
	3,940	3,609	3,921
<b><i>Capital and reserves</i></b>			
Called up share capital	5,012	5,012	5,012
Share premium account	2,245	2,250	2,245
Profit and loss account	383	64	369
Other reserves	(3,770)	(3,769)	(3,770)
Share based payments reserve	10 70	15	42
Total shareholders' funds	3,940	3,572	3,898
Equity minority interests	-	37	23
	3,940	3,609	3,921

# BNS Telecom Group plc

## Group statement of cash flow for the period ended 31 January 2007

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i> <i>£'000</i>	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2006</i> <i>£'000</i>	<i>Year ended</i> <i>31 July</i> <i>2006</i> <i>£'000</i>	
<b><i>Net cash (outflow)/inflow from operating activities</i></b>	7	(1,879)	(299)	609
<b><i>Returns on investments and servicing of finance</i></b>				
Interest received	-	42	89	
Interest paid	(113)	(108)	(161)	
<b><i>Net cash outflow from returns on investments and servicing of finance</i></b>		(113)	(66)	(72)
<b><i>Taxation</i></b>				
Corporation tax paid		(20)	-	(332)
<b><i>Capital expenditure and financial investment</i></b>				
Payments to acquire tangible fixed assets		(1,263)	(325)	(2,682)
Payments to acquire intangible assets		(114)	(50)	(186)
Receipts from sales of tangible fixed assets		49	84	522
Receipt from loan made to related company		-	799	799
		(1,328)	508	(1,547)
<b><i>Acquisitions and disposals</i></b>				
Purchase of subsidiary undertakings	6	(100)	(467)	(944)
Cash and cash equivalents acquired		-	95	173
<b><i>Net cash outflow on acquisitions and disposals</i></b>		(100)	(372)	(771)
<b><i>Net cash (outflow)/inflow from capital expenditure and financial investment</i></b>		(1,428)	136	(2,318)
<b><i>Equity dividends paid</i></b>	5	(251)	-	-
<b><i>Net cash outflow before financing</i></b>		(3,691)	(229)	(2,113)
<b><i>Financing</i></b>				
Issue of ordinary share capital (net of expenses)		-	2,732	2,726
New bank loan		1,124	1,805	3,229
Repayment of bank loan		-	(1,834)	(1,902)
Capital element of hire purchase contracts		(257)	(360)	(706)
<b><i>Net cash inflow from financing</i></b>		867	2,343	3,347
<b><i>(Decrease)/increase in cash in period</i></b>	8	(2,824)	2,114	1,234

### **1. Basis of preparation and consolidation**

The Board approved the interim accounts for the period 1 August 2006 to 31 January 2007 on 3 April 2007.

The interim report is not audited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information for the year ended 31 July 2006, restated for the impact of FRS 20 "Share Based Payments" (see below and note 10), has been extracted from the statutory accounts for that period that have been delivered to the Registrar and included an audit report, which was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

The interim accounts have been prepared using accounting policies consistent with those used in preparing the accounts of BNS Telecom Group plc for the year ended 31 July 2006, except for the adoption of FRS 20 "Share Based Payments" which is applicable for the first time and has a prior year impact as detailed in note 10.

### **2. Exceptional operating expenses**

Group exceptional operating expenses represent restructuring related payments made to employees of £118,000 (2006: £Nil) and FRS 20 Share based payment charges of £28,000 (2006: £15,000) (see note 10).

### **3. Taxation**

Tax on profit on ordinary activities for the period 1 August 2006 to 31 January 2007 and the comparative period 1 August 2005 to 31 January 2006 have been calculated using an effective rate of tax of 31 per cent.

### **4. Earnings per share**

#### *(a) Basic earnings per share*

The calculation of earnings per share is based on the net profit for the financial period and on the weighted average number of ordinary shares in issue during a six month period.

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i>	<i>Restated</i> <i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2006</i>	<i>Restated</i> <i>Year ended</i> <i>31 July</i> <i>2006</i>
<b>Basic earnings per share</b>			
<i>Profit after tax (£'000)</i>	265	76	392
<i>Number of shares</i>	50,122,929	45,687,299	47,899,038
<b>Basic earnings per share (pence)</b>	0.53p	0.14p	0.77p

#### 4. *Earnings per share* (continued)

##### (b) *Adjusted earning per share*

Adjusted earnings per share excludes the after tax effect of amortisation of goodwill and exceptional operating expenses as detailed in note 2. The directors believe that this gives a better indication of underlying commercial performance.

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i>	<i>Restated</i> <i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2006</i>	<i>Restated</i> <i>Year ended</i> <i>31 July</i> <i>2006</i>
<b><i>Adjusted earnings per share</i></b>			
<i>Profit after tax (£'000)</i>	265	64	369
<i>Amortisation of goodwill (£'000)</i>	53	10	55
<i>Exceptional items (note 2) (£'000)</i>	146	15	42
<i>Tax effect of above adjustments (£'000)</i>	<u>(62)</u>	<u>(8)</u>	<u>(30)</u>
<i>Adjusted profit after tax (£'000)</i>	<u>402</u>	<u>81</u>	<u>436</u>
<i>Number of shares</i>	50,122,929	45,687,299	47,899,038
<b><i>Adjusted earnings per share (pence)</i></b>	<i>0.80p</i>	<i>0.18p</i>	<i>0.91p</i>

##### (c) *Diluted earnings per share*

Diluted earnings per share amounts are calculated by dividing the net profit for the financial period by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i>	<i>Restated</i> <i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2006</i>	<i>Restated</i> <i>Year</i> <i>ended</i> <i>31 July</i> <i>2006</i>
<b><i>Diluted earnings per share</i></b>			
<i>Profit after tax (£'000)</i>	265	64	369
<i>Number of shares</i>	51,036,350	46,797,493	48,916,408
<b><i>Diluted earnings per share (pence)</i></b>	<i>0.52p</i>	<i>0.14p</i>	<i>0.75p</i>

#### 5. *Dividends*

The reported dividend in these statements represents the 2006 proposed final dividend of 0.5p per share, which was paid on 27 December 2006 (2006: £Nil). The amount of dividend paid was £251,000 (2006: £Nil).

The directors are not proposing an interim dividend for 2007 but intend to pay a final dividend in December 2007.

#### 6. *Acquisitions*

The Group acquired 70 per cent. of the issued share capital of Citygate Telecom Limited on 18 October 2006 for cash consideration of £100,000, including costs of £5,000.

**7. Net cash (outflow)/inflow from operating activities**

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i> £'000	<i>Restated</i> <i>(Unaudited)</i> <i>6 months</i> <i>ended 31</i> <i>January</i> <i>2006</i> £'000	<i>Restated</i> <i>Year</i> <i>ended</i> <i>31 July</i> <i>2006</i> £'000
Operating profit	462	183	684
Depreciation of tangible assets	364	326	741
(Profit)/loss on disposal of tangible fixed assets	(9)	15	16
Amortisation of intangible fixed assets	124	10	113
Increase in stocks	(22)	(28)	(31)
(Increase)/decrease in debtors	(1,829)	72	(495)
Decrease in creditors	(1,025)	(892)	(472)
FRS 20 Share based payment charge	28	15	42
Share of loss in associates	28	-	11
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(1,879)</b>	<b>(299)</b>	<b>609</b>

**8. Reconciliation of net cash flow to movement in net debt**

	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2007</i> £'000	<i>(Unaudited)</i> <i>6 months</i> <i>ended</i> <i>31 January</i> <i>2006</i> £'000	<i>Year ended</i> <i>31 July</i> <i>2006</i> £'000
<b>Cash flows</b>			
(Decrease)/increase in cash	(2,824)	2,114	1,234
Cash (inflow)/outflow from movement in debt and lease financing	(867)	389	(621)
Changes in net debt resulting from cash flow	(3,691)	2,503	613
<b>Other non cash changes</b>			
New finance leases introduced	(37)	(140)	(248)
Movement in net debt	(3,728)	2,363	365
Net debt at beginning of the period	(730)	(1,095)	(1,095)
Net (debt)/funds at end of the period	(4,458)	1,268	(730)

**Analysis of net debt**

	<i>(Unaudited)</i> <i>At 1 August</i> <i>2006</i> £'000	<i>(Unaudited)</i> <i>Cash flow</i> £'000	<i>(Unaudited)</i> <i>Other non</i> <i>cash</i> <i>changes</i> £'000	<i>(Unaudited)</i> <i>At 31</i> <i>January</i> <i>2007</i> £'000
Cash at bank and in hand	2,614	(1,908)	-	706
Bank overdrafts	(246)	(916)	-	(1,162)
Cash	2,368	(2,824)	-	(456)
Finance leases and hire purchase contracts	(722)	257	(37)	(502)
Loans due within one year	(2,376)	(1,124)	-	(3,500)
Loans due after one year	-	-	-	-
Net debt	(730)	(3,691)	(37)	(4,458)

### 9. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium</i>	<i>Share based payment reserve</i>	<i>Other reserve</i>	<i>Profit and loss</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Balance at 1 August 2006 as previously reported	5,012	2,245	-	(3,770)	411	3,898
Prior year adjustment - FRS 20	-	-	42	-	(42)	-
Balance at 1 August 2006 restated	5,012	2,245	42	(3,770)	369	3,898
Retained profit for the financial period	-	-	28	-	265	293
Dividends paid	-	-	-	-	(251)	(251)
	<u>5,012</u>	<u>2,245</u>	<u>70</u>	<u>(3,770)</u>	<u>383</u>	<u>3,940</u>

### 10. Share based payments

The Group has adopted FRS 20 "Share Based Payments" with effect from 1 August 2006. The Group issues equity-settled share-based payments to certain employees and directors. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes option pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

The adoption of FRS 20 has resulted in a new accounting policy for share-based payments. Until 31 July 2006 the provision of share options to individuals did not result in a charge to the profit and loss account. A prior year adjustment has been made to the financial information set out for the period ended 31 January 2006 and the year ended 31 July 2006 to apply changes to the profit and loss account for share options granted at these dates. The Group recognised a total expense of £28,000 relating to equity settled share options scheme transactions in the period (2006: £15,000). The restatement of prior periods has created a share-based payment reserve at 31 July 2006 of £42,000 and decreased retained profits by the same amount.

### 11. Subsequent events

On 30 March 2007 BNS Telecom Group plc acquired 100 per cent. of the issued share capital of 3g Comms Limited and 3g Landline Limited for cash consideration of £4.76million, funded through new banking facilities arranged by Barclays Bank Plc.

### 12. Interim report

A copy of the interim report will be distributed to shareholders shortly and will be available from the Company's registered office and the Company's website ([www.bnstelecomplc.com](http://www.bnstelecomplc.com)) in the week commencing 23 April 2007.