THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

This document does not constitute a prospectus but comprises an AIM admission document drawn up in accordance with the rules for AIM published by London Stock Exchange plc.

Application has been made for the Ordinary Shares to be admitted to trading on AIM. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. London Stock Exchange plc has not itself examined or approved the contents of this document. The Ordinary Shares are not dealt in on any other recognised investment exchange.**

BNS Telecom Group plc, together with its Directors, whose names appear on page 6 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of BNS Telecom Group plc and its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts, and this document makes no omission likely to affect the import of such information. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

Your attention is also drawn to the discussion of risks and other factors which should be considered in connection with an investment in the Ordinary Shares, set out in "Risk Factors" in Part II of this document. Notwithstanding this, prospective investors should read the whole text of this document.

BNS Telecom Group plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 5523489)

Admission to trading on AIM

and

Placing of 14,814,816 Ordinary Shares at 54 pence per share

by

KBC PEEL HUNT LTD

Nominated Adviser and Broker

The Placing is conditional, *inter alia*, on Admission taking place on or before 25 November 2005 (or such later date as the Company and KBC Peel Hunt may agree). The Placing Shares will rank in full for all dividends or other distributions hereafter declared, made or paid on the Ordinary Shares and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Admission.

This document has been approved by KBC Peel Hunt solely for the purposes of the Financial Services and Markets Act 2000. KBC Peel Hunt, which is regulated by the Financial Services Authority, is acting as the Company's Nominated Adviser in connection with the proposed admission of the Company's Ordinary Shares to trading on AIM. Its responsibilities as the Company's Nominated Adviser under the AIM Rules are owed solely to London Stock Exchange plc and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. No representation or warranty, express or implied, is made by KBC Peel Hunt as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). KBC Peel Hunt will not be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of the Placing or any acquisition of shares in the Company.

The distribution of this document outside the UK may be restricted by law and therefore persons outside the UK into whose possession this document comes should inform themselves about and observe any restrictions as to the Placing, the Ordinary Shares or the distribution of this document. The Ordinary Shares have not been, nor will be, registered in the United States under the United States Securities Act of 1933, as amended, or under the securities laws of Canada, Australia or Japan and they may not be offered or sold directly or indirectly within the United States, Canada, Australia or Japan or to, or for the account or benefit of, US persons or any national, citizen or resident of the United States, Canada, Australia or Japan. This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful.

CONTENTS

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission of the Ordinary Shares to trading on AIM
"AIM"	AIM, a market operated by London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange relating to AIM
"Articles"	the articles of association of the Company
"BNS Telecom Group" or the "Company"	BNS Telecom Group plc, a company registered in England and Wales with registered number 5523489
"BNS"	BNS Telecom Ltd, a wholly owned subsidiary of the Company, registered in England and Wales with registered number 3228233
"Board"	the board of directors of the Company
"BT"	BT Group plc and/or any of its subsidiaries
"Chamber Telecom"	Chamber Telecom Limited, a wholly owned subsidiary of the Company, registered in England and Wales with registered number 3436232
"Cheapercalls"	Cheapercalls.com Limited, a wholly owned subsidiary of the Company, registered in England and Wales with registered number 4620314
"CREST"	the relevant system (as defined in the CREST Regulations) operated by CRESTCo in accordance with which securities may be held or transferred in uncertificated form
"CRESTCo"	CRESTCo Limited, a company incorporated under the laws of England and Wales
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
"Directors"	the directors of the Company, whose names are set out on page 6
"EIS"	the Enterprise Investment Scheme and related reliefs as detailed in Chapter III, Part VII of Income and Corporation Taxes Act 1988 and in sections 150A to 150D and Schedule 5B and 5BA of the Taxation of Chargeable Gains Act 1992 (as amended)
"Enlarged Issued Share Capital"	the Ordinary Shares in issue following the Placing
"Group"	the Company and its subsidiaries
"ISIN"	International Securities Identification Number
"KBC Peel Hunt"	KBC Peel Hunt Ltd
"London Stock Exchange"	London Stock Exchange plc
"Modus Telecom"	Modus Telecom Limited, a 78 per cent. owned subsidiary of the Company, registered in England and Wales with registered number 4528921

"Ofcom"	The Office of Communications, the UK's communications regulator
"Official List"	the Official List of the UK Listing Authority
"Old Share Option Scheme"	the BNS Telecom Limited Employees' Share Option Scheme 2005
"Ordinary Shares"	ordinary shares of 10p each in the Company with ISIN GB00B0MV3J01
"Placing"	the conditional placing by KBC Peel Hunt of the Placing Shares, pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 22 November 2005, between the Directors and the Selling Shareholders, the Company and KBC Peel Hunt relating to the Placing and Admission, further details of which are set out in paragraph 11 of Part IV of this document
"Placing Price"	54p per Ordinary Share
"Placing Shares"	14,814,816 Ordinary Shares to be placed pursuant to the Placing, comprising 6,481,482 new Ordinary Shares and 8,333,334 Ordinary Shares being sold by the Selling Shareholders
"Selling Shareholders"	Garry Moat, Richard Horton and Stephen Sanderson
"Shareholders"	holders of Ordinary Shares
"Share Option Plans"	the Old Share Option Scheme, the SAYE Scheme and the Share Option Scheme, further details of which are set out in paragraph 7 of Part IV of this document
"Share Option Scheme"	the BNS Telecom Group plc Employees' Share Option Scheme 2005
"SAYE Scheme"	the BNS Telecom Group plc 2005 HM Revenue & Customs Approved SAYE Share Option Scheme
"United States" or "US"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"VCT"	a Venture Capital Trust for the purposes of section 842AA and Schedule 28B of the Income and Corporation Taxes Act 1988
"Your Communications"	Your Communications Limited

In this document all references to times and dates are references to those observed in London, United Kingdom.

In this document the symbols "£" and "p" refer to pounds and pence sterling respectively.

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this document and should be taken in the context of the telecommunications industry. Grammatical variations of these terms should be interpreted in the same way.

"ARPU"	Average Revenue Per User, the total revenue for the relevant period divided by the average number of customers during that period
"broadband"	a transfer principle entailing greater bandwidth than that available for traditional transfer of voice/data. Transfer speeds of greater than 128,000 bits per second and sometimes higher are generally considered to be broadband
"BT Wholesale"	a division of BT providing network services to telecoms service providers
"call routing"	the routing of a call from one endpoint to another through the physical telecommunications network
"call services"	telecommunications services relating to the transmission of voice traffic including, but not limited to, fixed line and mobile services, customer services and billing
"carrier pre-selection"	the customer pre-selection of a calls service provider other than the fixed line provider to carry their call traffic
"fixed line"	a physical telecommunications connection between the network and a termination point at the end user's premises
"reseller"	an individual or company that purchases wholesale telecommunications products for resale to end users. A reseller typically provides customer service, including billing, and is perceived by the end user as the telephone service provider
"SME"	Small and Medium Enterprises, typically businesses with fewer than 250 employees and annual turnover of less than €50 million
"switch"	a device that channels incoming voice or data traffic from any of multiple input ports to the specific output port that will take the traffic towards its intended destination
"telecommunications" or "telecoms"	the conveyance over distance of speech, music and other audible information, visual images or signals by electrical, magnetic or electro-magnetic means
"VOIP"	Voice Over Internet Protocol ("IP"), the two-way transmission of phone conversations over an IP network, allowing audio to travel over the internet, intranets, or private LANs (local area networks) and WANs (wide area networks)
"white labelling"	the process by which products and services of a business are re-branded and sold under the brand of a third party

DIRECTORS AND ADVISERS

Directors	Robert Graham Wilson, *Chairman and Non-executive Director* Garry George Moat, *Managing Director* David James Horrocks, *Finance Director* Barry Christopher Moat, *Non-executive Director* all of:
Registered Office	Telecom House Princess Way Low Prudhoe Northumberland NE42 6NJ Tel: 0870 7508 888
Company Secretary	David James Horrocks
Nominated Adviser and Stockbroker	**KBC Peel Hunt Ltd** 111 Old Broad Street London EC2N 1PH
Auditors and Reporting Accountants	**Ernst & Young LLP** Citygate St. James Boulevard Newcastle upon Tyne NE1 4JD
Solicitors to the Company	**Dickinson Dees** St. Ann's Wharf 112 Quayside Newcastle upon Tyne NE99 1SB
Solicitors to KBC Peel Hunt Ltd	**DLA Piper Rudnick Gray Cary UK LLP** 3 Noble Street London EC2V 7EE
Registrars	**Capita Registrars** Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
Share Option and EIS/VCT tax advisers to the Company	**PricewaterhouseCoopers LLP** 89 Sandyford Road Newcastle upon Tyne NE1 8HW

KEY INFORMATION

This information is derived from, and should be read in conjunction with, the full text of this document.

- BNS Telecom Group and its subsidiaries provide integrated, white labelled telecoms services to the SME and corporate market in the UK offering a broad range of services including fixed line, mobile, VOIP and data services complemented by installation and maintenance of telephone systems.
- BNS offers these telecoms services to its customers as packages which can be tailored to an individual business's needs. In addition, BNS's bespoke billing software is able to provide its customers with a billing service with high levels of reporting functionality.
- BNS currently has approximately 6,000 SME and corporate customers. The Group's ten largest customers accounted for approximately 16.4 per cent. of the Group's revenue in the year ended 31 July 2005.
- The Group's marketing strategy is predominantly focused on the use of joint marketing relationships with third parties, including regional chambers of commerce and corporations. This enables the Group to target new customers by using an established brand name and business customer database.
- Customers are targeted directly by the BNS sales force and BNS contracts directly with customers, thus giving BNS greater control over selling methods and customer service relationships.
- Customers of BNS typically enter into contracts for one, three or five year periods for fixed line access and network services.
- BNS turnover and gross profit has grown from £7.4 million and £2.0 million, respectively, for the year ended 31 July 2003 to £19.8 million and £7.0 million, respectively, for the year ended 31 July 2005.
- BNS has significant visibility of future revenues as a result of the contracted nature of fixed lines access and maintenance revenues and the forecast call traffic volumes from contracted network services based on historical usage volumes.

The Placing

- KBC Peel Hunt, as agent for the Company, has conditionally placed 6,481,482 new Ordinary Shares with investors at 54 pence per share.
- KBC Peel Hunt, as agent for the Selling Shareholders, has conditionally placed 8,333,334 Ordinary Shares with investors at 54 pence per share.
- The Placing, which is not underwritten, is conditional, *inter alia* upon Admission by 25 November 2005, or such later time as KBC Peel Hunt and the Company agree.
- The Placing is intended to raise £3.5 million for the Company, before expenses. After the expenses of the Placing and Admission, estimated in total at approximately £0.8 million (excluding VAT), the Placing is intended to raise approximately £2.7 million.
- The Placing and Admission is expected to:
  - provide balance sheet strength;
  - part fund the development of the Company's new premises;
  - provide finance to fund increased sales and marketing initiatives;
  - provide access to capital to enable the Group to take advantage of commercial opportunities;
  - enhance BNS's corporate profile with both current and future partners and customers; and

- assist in the recruitment, retention and incentivisation of key staff to ensure the Group's continued development.

Dividend

- The Directors intend, to adopt a progressive dividend policy. The Directors expect the Company to pay dividends to Shareholders for the year to 31 July 2006.

PLACING STATISTICS

Placing Price	54 pence
Number of new Ordinary Shares to be placed on behalf of the Company	6,481,482
Number of existing Ordinary Shares to be placed on behalf of the Selling Shareholders	8,333,334
Market capitalisation at the Placing Price	£26.9 million
Number of Ordinary Shares in issue on Admission	49,793,982
Percentage of Enlarged Issued Share Capital subject to the Placing	29.8 per cent.
Gross proceeds of the Placing available to the Company	£3.5 million
Net proceeds of the Placing available to the Company	£2.7 million

EXPECTED TIMETABLE

Admission and dealings in the Ordinary Shares to commence on AIM	25 November 2005
CREST accounts credited in respect of new Ordinary Shares	25 November 2005
Despatch of definitive share certificates (where applicable) by	2 December 2005

PART I

INFORMATION ON THE GROUP

1. Introduction

BNS Telecom Group and its subsidiaries provide integrated, white labelled telecoms services to the SME and corporate market in the UK. The Group offers a broad range of services including fixed line, mobile, VOIP and data services complemented by installation and maintenance of telephone systems. As a result, the Group aims to be a 'one-stop shop' telecommunications supplier in its chosen market.

BNS provides fixed line services through its relationships with BT, the UK's leading network provider, and Your Communications, part of United Utilities. BNS is one of the larger resellers for BT Wholesale through which it provides both line access and fixed line call services. BNS is also the largest reseller for Your Communications and provides fixed line call services through this relationship. The Group also has direct access to three voice and data switches and a VOIP gateway, following the recent acquisition of Modus Telecom. This allows a greater flexibility in routing fixed line call traffic as well as the ability to offer services using VOIP technology. BNS recently entered into a contract with Vodafone that allows BNS to offer mobile voice and data services to customers, further enhancing the available product portfolio.

The Group shortly intends to launch a broadband internet service to be sold to both existing and new customers. This service will be supplied via agreements with BT Wholesale and Your Communications.

BNS Telecom Group's marketing strategy is predominantly focused on the use of joint marketing relationships with third parties thus enabling BNS to target new customers with an established brand name and a business database already utilising that brand. Potential customers are targeted directly by the BNS sales force and BNS enters into direct contracts with its customers, thus giving BNS greater control over its selling methods and customer service relationships. BNS has relationships with nine regional chambers of commerce, such as the North East Chamber of Commerce, as well as a number of corporations. An example of the joint marketing strategy is the recent expansion in the South of England where BNS has entered into a marketing relationship with South East Water to launch South East Water Telecom. There are approximately 45,000 business customers on the South East Water database. Services sold through such joint marketing relationships are branded by the partner to whom a commission is paid.

BNS currently has approximately 6,000 SME and corporate customers.

2. Company history

BNS, incorporated under the name Business Network Services (Maintenance) Limited, was founded by Garry Moat and commenced trading in 1996. The principal activity of BNS up to 1998 was the supply, installation and maintenance of telecoms hardware systems to SMEs. In 1998, BNS expanded its activities to include the supply of voice and data services to exploit changes in the telecoms market following its deregulation which enabled other parties to provide telecommunications services in competition with the large network operators, such as BT. This deregulation was a response by the then telecoms regulator to its objective of greater competition in the supply of telecoms services to domestic and corporate customers.

In 2002, BNS became a BT Wholesale Service Provider enabling the resale of BT fixed line access and call services. Since then, the provision of telecommunications services (fixed lines and calls) has become the core business activity of the Group. BNS has focused on developing 'white label' joint marketing arrangements with third parties, entering into its first joint marketing arrangement with the North East Chamber of Commerce in 2002.

BNS entered into a supply agreement with Vodafone in 2005 and in July 2005 launched a business mobile phone service to existing and new customers.

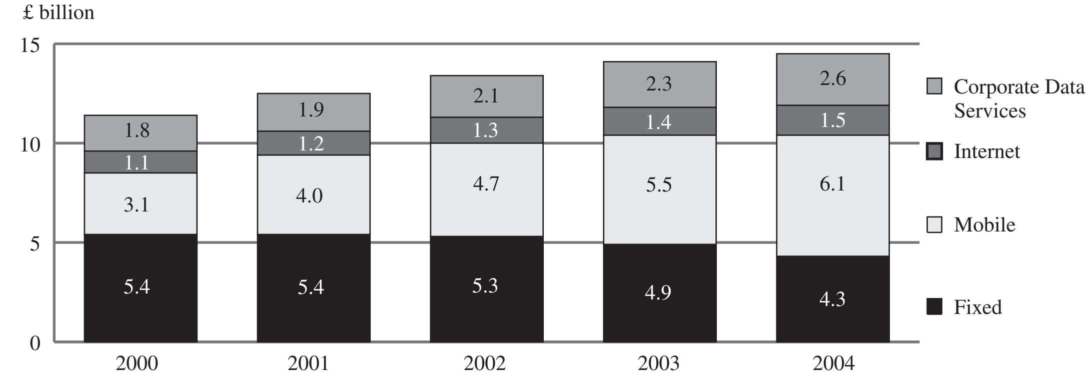
On 26 August 2005 BNS acquired 78 per cent. of the issued share capital of Modus Telecom. This acquisition has provided the Group with three voice and data switches and a VOIP gateway.

3. Market overview

Market dynamics

BNS operates within the UK telecoms market which includes fixed line and mobile products and services combining both voice and data traffic. The business telecoms market in 2004 was estimated to be worth £14.5 billion per annum[1].

UK business spending on telecoms services[1] at 2004 prices



Due to the size of the UK telecoms market, BNS's small market share and its primary target of SMEs and corporates, the Group strategy is to continue to grow revenues from reseller substitution, by which BNS acquires new customers from BT's retail arm or other resellers, rather than to rely on growth in the overall telecoms market.

Regulatory environment

The telecoms industry is regulated by Ofcom. Given the historically dominant position of BT within the fixed telecoms market, there has been a great deal of regulatory pressure to stimulate competition and ensure choice for the consumer. The regulatory pressure placed on BT has forced it to allow other operators, such as BNS, access to BT's network with the result that BT's share of the domestic and corporate customer market has reduced and there is greater competition and choice for consumers.

In particular, regulatory intervention has facilitated carrier pre-selection of call services. More recently, the provision of a wholesale line rental product from BT has presented new opportunities for BNS and other telecoms service providers.

VOIP

The VOIP business marketplace is still evolving. Such a service is suited to businesses that have multiple office locations, enabling free calls to be made between the different premises. A number of high-profile UK corporations have recently moved to a VOIP platform and the Directors consider that this trend will continue, with an increasing number of businesses operating VOIP technology.

4. Group structure

The Company is the holding company of three trading companies and one dormant subsidiary, Chamber Telecom.

BNS Telecom Ltd

BNS is the main trading subsidiary of the Group through which it conducts its business as a telecoms services provider. Further details of BNS's operations are set out in paragraph 5 below.

Modus Telecom Limited

BNS acquired 78.0 per cent. of the issued share capital of Modus Telecom on 26 August 2005, with the remaining 22.0 per cent. retained by the existing management of Modus Telecom. This acquisition has

1 Source: OFCOM – The Communications Market 2005

provided the Group with three voice and data switches and a VOIP gateway interconnected to global carriers with direct access to over 60 countries. BNS intends to use these switches to provide greater flexibility in routing fixed line call traffic as well as the ability to offer services using VOIP technology. This will allow BNS to choose carriers according to price and should enhance call margins through not having to pay suppliers for use of their switches.

Cheapercalls.com Limited

Cheapercalls commenced trading in January 2005 to target very small business users. However, in light of the continued growth of BNS, the Directors have chosen to focus upon the development of the core BNS business in the short term and have redeployed the Cheapercalls outbound call centre staff to support the BNS field sales team. Following Admission and subject to conditions in the telecoms market, the Directors may reappraise the merits of Cheapercalls to determine if an opportunity exists to relaunch to the small business user.

Property and employees

The Company's registered and head office is situated in Low Prudhoe, Northumberland where the majority of the Group's 209 (as at 30 September 2005) permanent employees are currently based. The headcount can be split as follows:

Directors and senior management	7
Sales and marketing	83
Customer services	35
Administration	41
Engineering	36
Modus Telecom	7

The Group also utilises the services of a number of third-party contractors as part of its engineering capability to provide installation and maintenance services where it is deemed necessary or cost effective to do so.

BNS has received planning permission for the building of additional offices and stores at its four acre Low Prudhoe site. Upon completion of the development, the Group's premises will be able to accommodate a significant number of additional staff. Further details of the funding for this development are set out in paragraph 11 of this Part I.

5. The Business

Services

BNS aims to offer a 'one-stop shop' telecoms service to SMEs and corporates through the supply of fixed line, mobile, data, installation and maintenance services. BNS offers these services to its customers as packages which can be tailored to an individual business's needs. In addition, BNS's bespoke billing software is able to provide its customers with a billing service with high levels of reporting functionality.

BNS has grown its customer base from 2,172 as at 31 July 2003 to 5,389 as at 31 July 2004 and 5,865 as at 31 July 2005 and currently has approximately 6,000 customers. Its customers operate across the UK, with the greatest concentration in the North of England.

During the year ended 31 July 2005, average monthly customer churn was approximately 2.15 per cent. In the final three months of that year, average monthly customer churn fell to approximately 1.8 per cent. This improvement was a result of the continuing implementation of one, three and five year contracts for network services and the introduction of a retentions department targeting customers with contracts for lines due to expire. The Directors believe that the Group's level of customer churn is in line with the general market average.

The Group's ten largest customers accounted for approximately 16.4 per cent. of the Group's revenue in the year ended 31 July 2005.

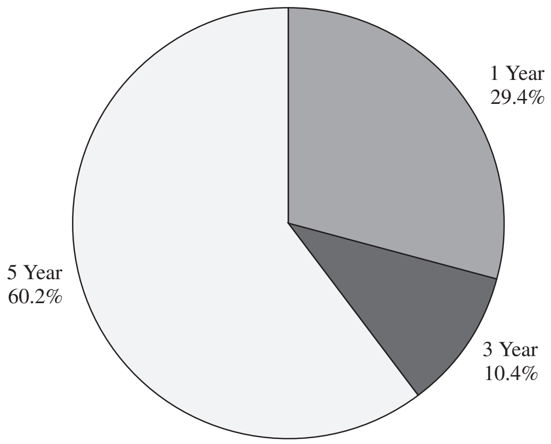
Fixed lines

The UK fixed line market is dominated by BT. There have been limited attempts to enter this market by other companies, including NTL Telewest, but the capital expenditure required to install the necessary infrastructure throughout the country has so far proved to be a barrier to entry. However, BT was required by Ofcom to allow resellers cost-based access to its network. Through an agreement with BT, BNS is able to offer its customers BT fixed line access. This enables the customer to obtain billing and customer service from BNS whilst maintaining physical access to BT lines.

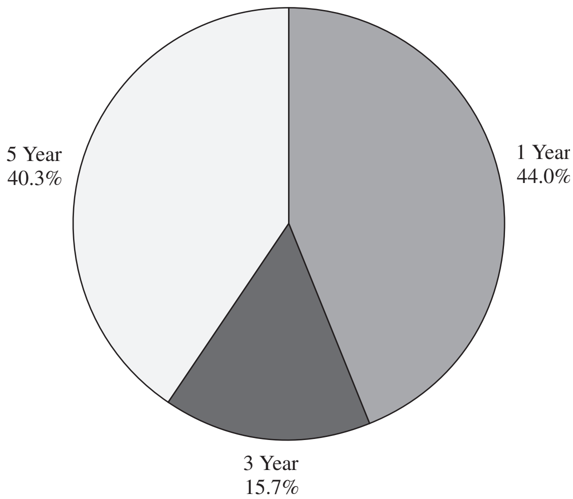
All customers who contract with BNS for fixed lines are charged a fixed amount per line. The amount charged typically represents a discount on the fixed price generally available from BT's retail business and depends on the committed contract term, being either one, three or five years. As at 31 July 2005, BNS customers had access to 42,180 fixed lines compared to 37,322 as at 31 July 2004 and 14,623 as at 31 July 2003.

As at 31 July 2005, 60.2 per cent. of fixed lines access customers were under five year term contracts, 10.4 per cent. under three year term contracts and the remaining 29.4 per cent. on one year term contracts. In the year ended 31 July 2005, even though a greater proportion of new customers signed up for one year contracts, a significant proportion, 40.3 per cent., entered into five year contracts.

Length of term of all contracts for fixed lines outstanding as at 31 July 2005



Length of term of all contracts for fixed lines signed in the period from 1 August 2004 to 31 July 2005



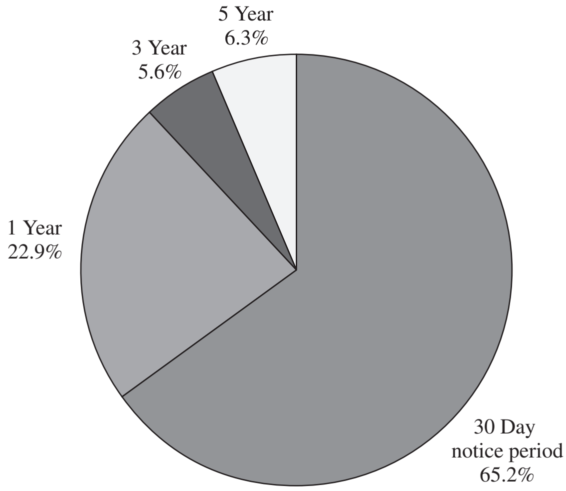
Network services (call traffic)

BNS re-sells to its customers call minutes which it obtains from suppliers including BT and Your Communications. BNS is able to offer a number of fixed line, 'freephone' 0800 prefixed numbers, 'lo-call' 0845 prefixed numbers, 'premium rate' 09XX prefixed numbers and international calls, operating approximately 100 separate tariffs for its customers.

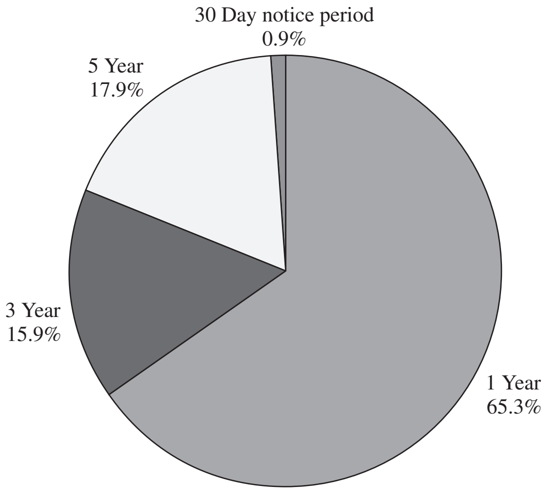
Since October 2004, new customers have been required to sign up for fixed term contracts of either one, three or five years to receive network services. Before then, customers were able to take network services on contracts subject to a 30 day notice period. As at 31 July 2005, 6.3 per cent. of customers taking network services were under five year term contracts, 5.6 per cent. under three year term contracts, 22.9 per cent. on one year term contracts and the remaining 65.2 per cent. were on contracts with a 30 day notice period.

Following the implementation of new contracts, during the period from 1 October 2004 to 31 July 2005, the proportion of customers entering into network service contracts for five years, three years and one year was 17.9 per cent., 15.9 per cent. and 65.3 per cent. respectively. A minority, 0.9 per cent., were still signed on contracts subject to a 30 day notice period.

Length of term of all contracts for network services outstanding as at 31 July 2005



Length of term of all contracts for network services signed in the 10 months from 1 October 2004 to 31 July 2005



Supply and installation

BNS is able to offer its customers a comprehensive range of telecoms systems, solutions and hardware as a reseller of LG, Panasonic and Nortel products. For example, the telephone systems include traditional switchboard and handset equipment as well as IP enabled hardware. Revenues are billed on a project-by-project basis.

Equipment installations are performed by BNS engineering teams and approved subcontractors where appropriate.

Maintenance

As part of ongoing customer service, BNS also offers its customers maintenance contracts, primarily for seven years, providing front line (an in-house engineer attempts resolution over the telephone), rectification and replacement maintenance services. In addition to generating recurring revenues, the maintenance offering can enhance customer relations and facilitate further sales of hardware, lines and calls. As at 30 September 2005, over 2,000 customers had maintenance contracts with BNS.

Mobile

BNS entered into a contract with Vodafone in July 2005 for the supply of mobile access and calls services thus enabling a mobile service to be provided to BNS customers similar to the fixed lines access and calls service already provided. BNS is targetting both its existing customer base and potential customers with the mobile offering in order to seek to transfer their mobile access and calls business from their present suppliers to the service offered by BNS. The mobile service was launched in July 2005 with customers signing one, two or three year contracts.

Broadband

BNS intends to launch a broadband service through its recently agreed arrangements with BT Wholesale and Your Communications. This service will be made available to both existing and new customers on one, three and five year contracts.

Sales and marketing

BNS has adopted a direct sales approach to winning new customers and selling to existing customers. BNS employs a telesales team of approximately 40 people whose role it is to make appointments with potential new customers. These appointments are attended by the direct sales team which currently comprises approximately 40 sales staff, although this is expected to increase to approximately 50 shortly after Admission. All customers contract directly with BNS, allowing BNS to manage the targeting of new business and ongoing customer relationships.

BNS has sourced approximately 70.0 per cent. of its 6,000 customers through its joint marketing relationships, including:

North East Chamber of Commerce ("NECC")

NECC is one of the largest chambers of commerce in the UK, with approximately 5,500 members, and represents businesses across the North East of England. BNS has had a joint marketing relationship with NECC since 2002 through which its service "NECC Telecom" is branded.

Liverpool Chamber of Commerce and Industry ("LCCI")

LCCI has represented the business community in Liverpool for more than 150 years and now has over 1,450 full members and 600 affiliated members. BNS has had a joint marketing relationship with LCCI since 2002 through which its service "Liverpool Chamber Telecom" is branded.

Northern & Western Lancashire Chamber of Commerce ("NWLCC")

NWLCC has approximately 1,200 members and represents business interests in the North and West of Lancashire, which comprises eight local authority districts including Blackpool and Lancaster. BNS has had a joint marketing relationship with NWLCC since 2002 through which its service "Lancs Chamber Telecom" is branded.

Yorkshire and Humber Chambers of Commerce ("YHCC")

YHCC is the collective body of accredited Chambers of Commerce in the Yorkshire and Humberside region and represents approximately 9,500 businesses. BNS has had a joint marketing relationship with half of the constituent chambers of YHCC since 2002 through which its service "YHCC Telecom" is branded.

Interchange and Consort Hotels Limited (trading as Beacon)

Best Western has over 300 member hotels in the UK, all of which are independently owned and managed. Beacon operates a buying consortium for the leisure and tourism industry and allows Best Western hotel members and other leisure sector partners to receive products and services all billed via a central point. BNS has had a joint marketing relationship with Beacon since 2003 through which its service "Beacon Telecom" is branded.

Nottinghamshire Chamber of Commerce and Industry ("NCCI")

NCCI has approximately 2,600 member businesses in the Nottinghamshire area. BNS has had a joint marketing relationship with NCCI since July 2004 through which its service "Notts Chamber Telecom" is branded.

In addition, BNS has recently signed new joint marketing relationships with the following parties:

South East Water

South East Water provides potable water to approximately 45,000 business customers across the South East of England. Its business customers range from small businesses and high-street shops, to large industrial complexes, hospitals and hotel chains across the region. BNS signed a joint marketing relationship in September 2005 and the telecoms service, under the brand "South East Water Telecom" was launched on 26 October 2005.

Hospitality Action

BNS signed a joint marketing relationship with Hospitality Action, the hospitality industry's benevolent fund provider, in 2004, to offer a route to enable its members to donate to the charity as well as receive discounted telecommunications services.

Newcastle United Football Club ("NUFC")

BNS signed a joint marketing relationship with NUFC in October 2005 to enable it to sell telecoms services under the brand "Newcastle United Telecom". The Directors anticipate that the service will be launched before the end of 2005.

Norfolk Chamber of Commerce and Industry ("NCC")

NCC has approximately 1,500 members in the Norfolk area. BNS signed a joint marketing relationship with NCC on 21 October 2005 which enables it to sell telecoms services under the brand "Norfolk Chamber Telecom" from 1 November 2005.

6. Key strengths

The Directors believe that BNS Telecom Group's operations have the following key strengths:

– *Marketing relationships with strong brands*

  BNS has marketing relationships with a number of organisations that provide access to potentially large customer bases.

– *White labelling of services*

  BNS is able to re-sell services under the established brands of its partners, which enables it to achieve a low cost route to market.

– *Contractual terms of one, three and five years for fixed line access and network services customers*

  Virtually all new customers for fixed line access and network services enter into contracts for a fixed term of one, three or five years and BNS is targeting existing fixed line network services customers with the aim of converting them to contracts of similar lengths. Customers are required to pay break fees if the contract is terminated early. Revenue from fixed line access and network services in the year ended 31 July 2005 accounted for approximately 87.0 per cent. of total Group revenue in that year.

– *Visibility of revenues*

  BNS has significant visibility of future revenues as a result of the contracted nature of fixed lines access and maintenance revenues and the forecast call traffic volumes from contracted network services based on historical usage volumes.

– *'One-stop shop' for telecoms services for SMEs and corporates*

  BNS provides a comprehensive telecoms offering including fixed line, mobile, VOIP and data services.

– *Critical mass enabling cost savings to be passed to customers*

  The UK telecoms market has an overcapacity built into the telecoms network. BNS has grown to such a size that it is able to negotiate competitive rates with some of its principal suppliers, thus enabling it to pass on savings to its customers whilst maintaining satisfactory margins.

7. Historical trading

The table below sets out financial information for the Group for the three years ended 31 July 2005. This information should be read in conjunction with the financial information set out in Part III of this document.

	Year ended 31 July		
	2003	*2004*	*2005*
	£'000	*£'000*	*£'000*
Turnover[1]	7,441	15,123	19,762
Gross profit[1]	2,012	4,260	6,975
Gross margin[2]	*27.0%*	*28.2%*	*35.3%*
Overheads	(1,949)	(4,174)	(5,633)
Operating profit[1]	79	86	1,351
EBITDA[3]	283	510	1,845
ARPU (£)	4,344	4,000	3,512

Notes:

1. Extracted from the audited profit and loss account of BNS set out in Section B of Part III of this document.
2. Gross margin for the relevant year is calculated by dividing gross profit by turnover.
3. Unaudited EBITDA for the relevant year is calculated by adding depreciation and profit/loss on disposal of fixed assets (as set out in Section B of Part III of this document) to operating profit.

During the period under review, the growth in turnover achieved is due to the expansion of the fixed lines and network services business. This growth has been volume driven. Gross margin remained broadly constant in the two years ended 31 July 2004 but improved in the year ended 31 July 2005 due to improved buying power with key suppliers of calls, hardware and lines.

The turnover generated by fixed line access has grown from approximately £5.1 million for the year ended 31 July 2004 to approximately £7.7 million for the year ended 31 July 2005, an increase of approximately 50.1 per cent. Revenue from fixed line access has increased despite the average sales price per line remaining generally constant because of an increase in the number of customers and an increase in the number of lines installed. Fixed line access generated gross margins of approximately 13.0 per cent. for the year ended 31 July 2004 and 21.0 per cent for the year ended 31 July 2005. Improvements in gross margin are partly a result of improved purchasing terms with BT.

The turnover generated by network services has grown from approximately £8.5 million for the year ended 31 July 2004 to approximately £9.9 million for the year ended 31 July 2005, an increase of approximately 16.5 per cent. These revenues have increased despite a fall in the average price per call of approximately 17.0 per cent. during the year ended 31 July 2005 primarily as a result of increased call volumes generated through new customers gained by BNS during the periods under review. Call revenues have generated gross margins of approximately 43.1 per cent. for the year ended 31 July 2004 and increased to approximately 47.8 per cent. for the year ended 31 July 2005 due to improved purchasing terms with key calls suppliers.

ARPU has reduced by approximately 12.0 per cent. during the year ended 31 July 2005. This is primarily as a result of the reduction in network services pricing evident in 2005, driven by a combination of regulatory intervention and market conditions.

Overheads during the period under review have remained fairly constant as a percentage of turnover. The increase in overheads was higher in the year ended 31 July 2005 due to the recruitment of staff to bolster the back-office administration of the Group as well as the appointment of the Finance Director and two non-executive Directors in preparation for Admission. In addition, the sales team was increased by 39 staff in the last three months of the year ended 31 July 2005.

8. Current trading and prospects

BNS has significant visibility of future revenues as a result of the contracted nature of fixed lines access and maintenance revenues and the forecast call traffic volumes from contracted network services based on historical usage volumes.

The expansion of the sales team in the three months to 31 July 2005 from 44 members of staff to 83 has had a positive impact since 1 August 2005. During the year ended 31 July 2005, the direct sales team attended an average of 526 appointments each month, and signed contracts with an average of 220 customers each month, a 41.8 per cent. success rate. In the two months ended 30 September 2005 the average number of appointments attended was 925 per month with an average of approximately 400 customers having signed contracts each month, a success rate of approximately 43.0 per cent. In addition, during the same two month period, the Company has connected 2,325 additional fixed lines (excluding churn).

Average monthly ARPU in the two months to 30 September 2005 was £277 (annualised: £3,324), a small decrease to that recorded in the year to 31 July 2005 due to erosion in the price of calls resulting from competitive pressures and the effects of seasonality on call traffic during the month of August 2005.

Based on the Company's performance since 1 August 2005, the Directors are confident about the financial and trading prospects of the Company for the current financial year. Following the acquisition of Modus Telecom, the increase in number of sales staff, the introduction of a mobile offering and the planned broadband internet service, the Directors believe that BNS Telecom Group is well positioned to take advantage of opportunities to strengthen the Company's market position through its recently signed joint marketing relationships.

9. Directors and employees

Directors

Details of the Directors, their roles and their backgrounds are as follows:

Graham Wilson (52), Chairman and Non-executive Director

In 1989 Graham Wilson led the management buy out of Beazer's holiday subsidiary by Parkdean Leisure which subsequently floated on the London Stock Exchange in 1993. In 1995 Parkdean Leisure plc was acquired by Vardon plc and Graham joined the Vardon plc board of directors. In 1998 Vardon plc sold the holiday division to Rank plc and Graham left the company. In 1999 Graham established Parkdean Holidays plc for the acquisition of holiday parks, and floated the company on AIM in 2002. Graham is also non-executive chairman of Amdega Limited and of Premier Direct Group plc and non-executive director of Goals Soccer Centres plc. Graham joined BNS in October 2004.

Garry Moat (41), Managing Director

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

David Horrocks (46), Finance Director

David Horrocks joined BNS as Finance Director in January 2005. He is a member of the Institute of Chartered Accountants in England and Wales and has over 17 years' experience with Price Waterhouse, and then PricewaterhouseCoopers, the last six years as a director in transaction services, dealing with corporate acquisitions and disposals. His current responsibilities include finance, human resources, health and safety, legal and company secretarial matters.

Barry Moat (39), Non-executive Director

Barry Moat led the management buy-out of Premier Direct in 1997 which subsequently floated on AIM in August 1998. Barry is the chief executive of Premier Direct Group plc. Barry joined BNS in October 2004.

Senior management

The Group operates an operational management board, which is responsible for the day to day running of BNS. The operational management board is chaired by Garry Moat. In addition to Garry Moat and David Horrocks, it includes the following key employees:

Richard Horton (36), Network Director, BNS

Rik Horton has worked for BNS for nine years, moving initially from a sales role to hold a variety of engineering positions including engineering manager. In 2003 he became network director and has responsibility for the operational aspects of the BNS connection and billing operations and installations and maintenance divisions.

Davina Outhwaite (45), Customer Services Director, BNS

Davina has over 25 years of business experience beginning her career at Silentnight Group. She has held senior positions with companies including Sealy, Eros Marketing Support Services (part of Havas Advertising), Universal Wines & Spirits (part of Yates Brothers Plc), and a French food company. Saupiquet. Her experience encompasses both business-to-business and business-to-consumer commerce, retail and service sectors. She joined BNS in 2004.

Stephen Sanderson (36), Sales Director, BNS

Stephen Sanderson joined BNS as sales manager in 1998 after working with Garry Moat in the telecommunications industry since 1992. He joined the board of BNS as sales director in 2002. Stephen is responsible for new sales from the six new business sales teams, and the telesales team. He is also responsible for sales from the existing customer sales team.

Neil Scott (47), Group Financial Controller

Neil Scott joined BNS as Financial Controller in April 2003. He is a member of the Institute of Chartered Accountants in England and Wales, having qualified with Binder Hamlyn in Newcastle. He has since gained twenty years of experience working in and heading up the finance departments of several North East-based companies.

10. Corporate governance

The Directors support high standards of corporate governance and confirm that following Admission, the Group intends (having regard to its size and nature) to comply, so far as it considers practicable and appropriate, with the Combined Code. The Company will hold Board meetings at least six times per annum. The Board will be responsible for formulating, reviewing and approving the Company's strategy, budgets, major items of capital expenditure and acquisitions.

Board composition and committees

The Company has established an Audit Committee, a Remuneration Committee and a Nomination Committee.

The Audit Committee comprises the two Non-executive Directors, with Graham Wilson as Chairman. It is responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for reviewing the auditors' reports relating to accounts and internal control systems.

The Remuneration Committee comprises the two Non-executive Directors, with Barry Moat as Chairman. It is responsible for determining and agreeing with the Board the framework for the remuneration of the Managing Director, all other Executive Directors, the Company Secretary and such other members of the executive management as it is designated to consider. It is responsible for determining the total individual remuneration packages of each Director including, where appropriate, bonuses, incentive payments and share options. The Remuneration Committee will also liaise with the Nomination Committee to ensure that the remuneration of newly appointed executives is within the Company's overall policy.

The Nomination Committee comprises the two Non-executive Directors and Garry Moat, with Graham Wilson as Chairman. It is responsible for reviewing the structure, size and composition of the Board, preparing a description of the role and capabilities required for a particular appointment and identifying and nominating candidates to fill Board positions as and when they arise.

The Company has adopted a share dealing code for Directors and relevant employees and will take proper steps to ensure compliance by the Directors and those employees.

Equity participation

Following the Placing, the Directors will be interested, in aggregate, in 30,707,592 Ordinary Shares, representing approximately 61.7 per cent. of the Enlarged Issued Share Capital. The Directors have agreed that they will not dispose of any further interests in the Company's share capital for a period of 18 months from Admission except in certain strictly limited circumstances. In addition, the Directors have undertaken only to dispose of their shares through the broker to the Company.

Share Option Plans

In addition to the Ordinary Shares in which the Directors are interested as described in this paragraph 10, options over 1,547,175 Ordinary Shares were granted to David Horrocks at an exercise price of approximately 16.18p per share, in accordance with the provisions of the Old Share Option Plan, in replacement of his pre-existing options over ordinary shares in BNS.

Further details of the interests of the Directors in Ordinary Shares and in options over Ordinary Shares are set out in paragraph 5 of Part IV of this document.

As at the date of this document, options over 267,000 Ordinary Shares are expected to be granted under the Share Option Scheme to certain members of staff (other than to the Directors) and options over a maximum of 650,000 Ordinary Shares are expected to be granted under the SAYE Scheme shortly before or on Admission.

11. Reasons for Placing and Admission

Provide balance sheet strength

The Group has achieved a volume of traffic through its main suppliers significant enough to enable it to gain, in certain cases, improved trading terms and improved margins. The Directors believe that an increase in the strength of the balance sheet will further enhance the Company's credibility with these suppliers.

Consideration for new premises

The Group is proposing to develop new premises at its Prudhoe site at a cost of approximately £2.5 million. Approximately £1.5 million of this amount is intended to be funded from the Placing and the remainder from existing and new banking facilities.

Provide finance to fund increased sales and marketing initiatives

The Directors have identified the key to driving the growth of BNS's business is through increased sales activity, through a combination of expanding existing channels to business, finding new channels and the marketing of new services. To do this, the sales operation within BNS is being developed further and the Directors believe that new funds from the Placing will facilitate its growth.

The Directors believe that Admission will also:

– provide access to capital to enable the Group to take advantage of commercial opportunities;

– enhance BNS's corporate profile with both current and future partners and customers; and

– assist in the recruitment, retention and incentivisation of key staff to ensure the Group's continued development.

12. Details of Placing and Admission

KBC Peel Hunt, as agent for the Company, has conditionally placed 6,481,482 new Ordinary Shares with investors at 54 pence per share. KBC Peel Hunt, as agent for the Selling Shareholders, has conditionally placed 8,333,334 Ordinary Shares with investors at 54 pence per share. The Placing, which is not underwritten, is conditional, *inter alia*, upon Admission by 25 November 2005, or such later time as KBC Peel Hunt and the Company agree.

The Placing is intended to raise approximately £3.5 million for the Company, before expenses. After the expenses of the Placing and Admission, estimated in total at approximately £0.8 million (excluding VAT), the Placing is intended to raise approximately £2.7 million.

It is expected that the proceeds of the Placing will be received by the Company on or before 25 November 2005 and that the appropriate stock accounts of placees will be credited with new Ordinary Shares with effect from 25 November 2005. In the case of placees requesting Placing Shares in certificated form, it is expected that certificates in respect of the Placing Shares will be despatched by post within 14 days of the date of Admission. No temporary documents of title will be issued.

Pending despatch of share certificates or crediting of CREST accounts, the Company's registrar will certify any instruments of transfer against the register.

Set out below are the details of the number of Ordinary Shares held and being sold by the Selling Shareholders:

Selling Shareholder	*Number of Ordinary Shares held as at the date of this document*	*Number of Ordinary Shares being sold in the Placing*	*Number of Ordinary Shares on Admission*	*Percentage of Enlarged Issued Share Capital*
Garry Moat	35,639,625	7,407,408	28,232,217	56.70
Richard Horton	2,165,625	462,963	1,702,662	3.42
Stephen Sanderson	2,165,625	462,963	1,702,662	3.42

The Selling Shareholders have agreed that they will not dispose of any further interests in the Company's share capital for a period of 18 months from Admission and only to dispose of their shares through the broker to the Company.

Further details of the Placing Agreement are set out in paragraph 11 of Part IV of this document.

13. Dividend policy

The Directors intend to adopt a progressive dividend policy. The Directors expect the Company to pay dividends to Shareholders for the year to 31 July 2006.

14. CREST

The Articles of Association of the Company permit the Company to issue shares in uncertificated form in accordance with the CREST Regulations. The Ordinary Shares are eligible for CREST settlement. Accordingly, settlement of transactions in the existing Ordinary Shares and the new Ordinary Shares following Admission may take place within the CREST system if the relevant shareholder so wishes. CREST is a voluntary system and shareholders who wish to receive and retain share certificates will be able to do so.

15. Further information

Your attention is drawn to the additional information in Parts II to IV of this document.

PART II

RISK FACTORS

An investment in the Company and the Ordinary Shares described in this document is speculative, involves a high degree of risk and may result in the loss of all or part of the investment. Shareholders and prospective investors should consider in particular the following risk factors before making a decision to invest in the Company and understand that these risks, individually or in aggregate if they actually occur, could have a material adverse effect on the Company, the Group, its business, financial condition, capital resources, results or future operations and/or holders of its securities. In such a case, the price of the Ordinary Shares could decline and investors may lose all or part of their investment.

Moreover, the information set out below does not purport to be an exhaustive summary of the risks associated with an investment in the Company. Additional risks and uncertainties of which the Directors are not currently aware, or which the Directors do not currently consider to be material, may also have an adverse effect on the Company. These risks could arise as a result of changes in the market, economic conditions and/or in legal, regulatory or tax requirements.

If you are in any doubt about the action you should take, you should consult a personal adviser authorised under the Financial Services and Markets Act 2000 who specialises in the acquisition of shares and other securities. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his, her or its personal circumstances and the financial resources available to him, her or it.

In particular, prospective investors should consider the following:

Volatility in share price and liquidity

Admission to AIM does not guarantee that there will be a liquid market for Ordinary Shares. An active public market for Ordinary Shares may not develop or be sustained after Admission and the market price may fall below the price at which Ordinary Shares are placed under the Placing.

AIM

The rules of AIM are less demanding than those of the Official List. An investment in shares traded on AIM is perceived to involve a greater degree of risk and be more illiquid than an investment in shares traded on the Official List. The future success of AIM and liquidity in the Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may be, or may become, relatively illiquid and therefore, such Ordinary Shares may be or may become difficult to sell.

Other considerations relating to an investment in Ordinary Shares

Substantial future sales of Ordinary Shares could impact the market price of Ordinary Shares. There has been no prior market in the Ordinary Shares before and an active trading market may not develop or be sustained in the future.

Insiders will continue to have substantial control over the Company after completion of the Placing, so potential investors may not be able to influence the outcome of some of the Company's important decisions.

Forward-looking statements in this Admission Document are no guarantee of future performance and only reflect the views and assumptions as of the date of this document and are subject to risks, uncertainties, market conditions and other factors, some of which are beyond the control of the Company and difficult to predict.

Investment in the Ordinary Shares may not be suitable for all readers of this document.

Competition

The telecoms sector is highly competitive, in both the fixed line and mobile sub-sectors. The Company may face significant competition, including from larger telecoms companies (which include key suppliers) which have greater capital resources. There is no assurance that the Company will be able to compete successfully in such a marketplace in the future.

Contracts with suppliers

The Company uses a number of network operators for the supply of its products. In particular the Company has service provider agreements with BT and Your Communications. These service provider agreements, like most of its supplier and customer arrangements, are of a limited duration. While contracts with both BT and Your Communications are currently in place there can be no guarantee that they will remain in place beyond their current expiry dates or will not be terminated by the suppliers. Furthermore, any future service provider contract could be on less favourable commercial terms for the Company.

Reliance on software

The Group relies heavily on the integrity and the serviceability of its billing system to enable the Company to invoice its customers. In the event that there were a problem with this software, standing data would have to be transferred to an alternative software platform which could have a material adverse impact on the Group.

Product defects and network outage

BNS is currently reliant on third party suppliers for its services, although through Modus Telecom it does have access to switching facilities. Whilst steps are taken to ensure that its suppliers maintain a high level of service, there can be no guarantee that security or quality of supply will be maintained. This may lead to increased customer churn and loss of turnover.

Pricing environment

Retail prices for many telecoms products have declined consistently in recent years, through a combination of regulatory intervention and market competition. These declining price trends are expected to continue in the near future. Although the Group builds price erosion into its financial modelling it remains possible that the pricing environment could become more difficult than anticipated, which could have an unforeseen, adverse impact on the Group's revenues and profit margins.

Regulation

The UK telecoms market is subject to periodic regulatory intervention by Ofcom. In particular, the pricing of fixed line to mobile calls has been the subject of a series of price reductions following regulatory scrutiny. There is likely to be further regulatory intervention by Ofcom in the future which may have an unforeseen and adverse impact on some or all of the Group's products and tariffs.

Technological change

The technology upon which the Group's products and services are based may become obsolete or may not continue to have sufficient market acceptance to create adequate demand for the the Group's products and services. In order to compete successfully, the Group will need to continue to improve its products and services and to develop and market new products and services that keep pace with technological change. The introduction of VOIP may lead to increased competition or new products and services.

Major shareholder

Garry Moat will continue to have substantial control over the Company after completion of the Placing, and will beneficially own approximately 56.7 per cent. of the Enlarged Issued Share Capital. As a result, Garry Moat could exercise significant control over all matters requiring shareholder approval, which could delay or prevent an outside party from acquiring or merging with the Company.

Dependence on key executives and personnel

The Group's future success is substantially dependent on its senior management and, in particular, each of the executive Directors, further details of whom may be found in the paragraph entitled "Directors and employees'' in Part I of this document. The departure from the Group of any of the executive Directors or certain senior employees could, in the short term, have a material adverse effect on the Group's business. The Company has provided certain key members of its senior management and its employees with share options to reward them for their contribution to the Company's performance and to encourage them to remain with the Company, but the retention of the services of such persons cannot be guaranteed.

Ability to recruit and retain sales staff

The Group may be adversely affected by an inability to recruit and retain sufficient personnel of the right calibre to build on the sales growth of the Group.

International Financial Reporting Standards

The Company prepares its financial statements in accordance with UK GAAP (the generally accepted accounting principles applicable in the UK). UK companies whose shares are traded on AIM will have to comply with International Financial Reporting Standards (''IFRS'') for each financial year beginning on or after 1 January 2007. Therefore, the Company will have to comply with IFRS from 1 August 2007 and will need to provide comparable data in accordance with IFRS for the financial year ending 31 July 2007. It is not possible at this time to accurately quantify the impact that the conversion from UK GAAP to IFRS will have on the Company's financial results, although it could adversely affect the capital position or reported profitability of the Company.

EIS/VCT

A provisional tax clearance has been obtained from HM Revenue and Customs that the Company will be a qualifying company for EIS and VCT purposes and that the issue of new shares as part of the Placing will be qualifying shares for EIS and VCT purposes. Neither the Company, the Company's advisors nor the Directors can give any guarantee that the Company and the issue of shares will qualify for EIS or VCT purposes or give any warranties or undertakings that if EIS relief or VCT qualifying status is given it will not be withdrawn.

If the Group undertakes any activities which are not qualifying activities for EIS or VCT purposes, operates through subsidiaries or associate company structures which do not qualify for EIS or VCT purposes, if the Group ceases to carry on the business outlined in this document or if the Company comes under the control of another company, during the three year period from the last issue of Ordinary Shares, this could prejudice the qualifying status of the Company under the EIS and VCT schemes.

Circumstances may arise where the Directors believe that the interests of the Company are not best served by acting in a way that preserves EIS relief or VCT qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to preserve any such relief or status claimed by any shareholder.

EIS relief and VCT qualifying status will not be available, or may be withdrawn, if the Company, or an individual investor, does not qualify and comply with the EIS and VCT regulations during the three year period from the last issue of Ordinary Shares.

Should the law regarding EIS or VCT relief change, then any reliefs or qualifying status previously obtained may be lost.

The rules relating to EIS and VCT reliefs are complicated and any potential investor who may wish to claim EIS relief or a VCT seeking to acquire a qualifying investment should consult their own financial adviser before investing.

Tax law and practice

The information in this document is based upon current tax law and practice and other legislation and any changes in the legislation or practice or in the levels and bases of, and reliefs from, taxation may affect the value of an investment in the Company.

PART III

FINANCIAL INFORMATION AND ACCOUNTANTS' REPORT

The financial information relating to BNS Telecom Group and BNS set out in Part III of this document and otherwise in this document does not comprise statutory accounts as referred to in section 240 of the Act.

Section A: BNS Telecom Group plc

The following text is the text of a report from Ernst & Young LLP, the reporting accountants:

The Directors
BNS Telecom Group plc
Princess Way
Low Prudhoe
Northumberland
NE42 6NJ

22 November 2005

Dear Sirs

BNS Telecom Group plc

We report on the historical financial information set out in Section A of Part III of the AIM Admission Document dated 22 November 2005 relating to BNS Telecom Group plc (the "Admission Document"). This historical financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 1. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with the above rules and for no other purpose.

The historical financial information is based upon the unaudited accounts of BNS Telecom Group plc for the period from 1 August 2005 to 30 September 2005, to which no adjustments were considered necessary.

BNS Telecom Group plc was incorporated on 1 August 2005 under the name of Crossco (886) Limited. It subsequently changed its name to BNS Telecom Group Limited on 5 October 2005 (effective from 6 October 2005) and was re-registered as a public limited company on 18 October 2005.

Responsibilities

The Directors of BNS Telecom Group plc are responsible for preparing the historical financial information on the basis of preparation set out in note 1 to the historical financial information and in accordance with applicable UK accounting standards.

It is our responsibility to form an opinion as to whether the historical financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the historical financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the historical financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of BNS Telecom Group plc as at the date stated in accordance with the basis of preparation set out in note 1 and in accordance with applicable UK accounting standards, as described in note 1.

Declaration

We are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Consent

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in the Admission Document of this report and references to it in the form and context in which they appear.

Yours faithfully

Ernst & Young LLP

Historical Financial Information

For the period from 1 August 2005 to 30 September 2005

Balance sheet

	Notes	At 30 September 2005 £
Current assets		
Debtors	2	1
Net assets		1
Capital and reserves		
Called up share capital	3	1
Equity shareholders' funds		1

Notes to the historical financial information

1. Accounting policies

Basis of preparation

The financial information is prepared under the historical cost convention and in accordance with applicable UK accounting standards.

2. Debtors

	At 30 September 2005 £
Unpaid issued share capital	1
	1

3. Share capital

Authorised

	At 30 September 2005 £
Ordinary shares of £1 each	100

Allotted, called up but not fully paid up

	No.	At 30 September 2005 £
Ordinary share of £1 each	1	1

On incorporation on 1 August 2005, Prima Director Limited subscribed for 1 ordinary share of £1. This remained unpaid at 30 September 2005.

4. Post balance sheet events

On 5 October 2005, it was resolved to change the company's name to BNS Telecom Group Limited. The change of name took effect from 6 October 2005.

On 7 October 2005:

- the subscriber share was transferred to Mr G G Moat, the managing director of BNS Telecom Ltd;
- Mr G G Moat, Mr D J Horrocks, Mr R G Wilson and Mr B C Moat were appointed as Directors and Mr D J Horrocks as Secretary of BNS Telecom Group Limited and the previous director and secretary resigned;
- the authorised share capital was increased to £6,500,000 divided into 65,000,000 ordinary shares of 10p each, by dividing each of the existing 100 ordinary shares of £1 each into 10 ordinary shares of 10p each and by creating a further 64,999,000 ordinary shares of 10p each;
- 43,312,490 ordinary shares of 10p each were allotted in exchange for the entire issued share capital of BNS Telecom Ltd, on the basis of 525 shares for each ordinary share in BNS Telecom Ltd;
- the 10 unpaid ordinary shares of 10p each (previously 1 ordinary share of £1) held by Mr G G Moat were treated as fully paid up.

On 17 October 2005, a resolution was passed by the board of directors to re-register BNS Telecom Group Limited as a public limited company. The re-registration was effective on 18 October 2005.

Apart from the above transactions, no other transactions have been entered into by BNS Telecom Group Limited since incorporation, and the company was dormant at 30 September 2005.

5. Controlling party

In the directors' opinion, the ultimate controlling party is Mr G G Moat.

Section B: BNS Telecom Ltd

The following text is the text of a report from Ernst & Young LLP, the reporting accountants:

The Directors
BNS Telecom Group plc
Princess Way
Low Prudhoe
Northumberland
NE42 6NJ

22 November 2005

Dear Sirs

BNS Telecom Ltd

We report on the historical financial information set out in Section B of Part III of the AIM Admission Document dated 22 November 2005 relating to BNS Telecom Group plc (the "Admission Document"). This historical financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 1. This report is required by Schedule Two of the AIM Rules and is given for the purpose of complying with the above rules and for no other purpose.

The historical financial information is based upon the audited accounts of BNS Telecom Ltd for the three years ended 31 July 2005.

Responsibilities

The Directors of BNS Telecom Group plc are responsible for preparing the historical financial information on the basis of preparation set out in note 1 to the historical financial information and in accordance with applicable UK accounting standards, modified to include the revaluation of certain freehold land and buildings.

It is our responsibility to form an opinion as to whether the historical financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the historical financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the historical financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 historical financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the historical financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of BNS Telecom Ltd as at the dates stated and of its results, cash flows and recognised gains and losses for the periods then ended in accordance with the basis of preparation set out in note 1 and in accordance with applicable UK accounting standards, modified to include the revaluation of certain freehold land and buildings, as described in note 1 and has been prepared in a form that is consistent with the accounting policies adopted in BNS Telecom Ltd's latest annual accounts.

Declaration

We are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission document in compliance with Schedule Two of the AIM Rules.

Consent

Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in the Admission Document of this report and references to it in the form and context in which they appear.

Yours faithfully

Ernst & Young LLP

Historical Information

For the three years ended 31 July 2005

Profit and loss account

		Year ended 31 July		
		2003	*2004*	*2005*
	Notes	*£*	*£*	*£*
Turnover	2	7,441,160	15,122,595	19,762,355
Cost of sales		(5,429,003)	(10,862,359)	(12,787,317)
Gross profit		2,012,157	4,260,236	6,975,038
Administrative expenses		(1,949,055)	(4,173,953)	(5,633,397)
Other operating income		16,026	–	9,750
Operating profit	3	79,128	86,283	1,351,391
Bank and other interest receivable		–	–	12,623
Interest payable and similar charges	6	(46,566)	(101,034)	(133,090)
		(46,566)	(101,034)	(120,467)
Profit/(loss) on ordinary activities before taxation		32,562	(14,751)	1,230,924
Tax on profit/(loss) on ordinary activities	7	(1,000)	(13,000)	(384,500)
Profit/(loss) for the financial year	19	31,562	(27,751)	846,424
Dividends	8	(325,000)	(495,000)	–
Retained profit/(loss) for the financial year		(293,438)	(522,751)	846,424

Note of historical cost profits and losses

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Reported profit/(loss) on ordinary activities before taxation	32,562	(14,751)	1,230,924
Realisation of property revaluation gains of previous years	–	–	10,210
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	–	–	4,604
Historical cost profit/(loss) on ordinary activities before taxation	32,562	(14,571)	1,245,738
Historical cost profit/(loss) for the year retained after taxation and dividends	(293,438)	(522,751)	861,238

Statement of total recognised gains and losses

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Profit/(loss) for the financial year attributable to shareholders	31,562	(27,751)	846,424
Revaluation of land & buildings	–	249,519	–
Total recognised gains and losses relating to the year	31,562	221,768	846,424

Balance sheet

	Notes	*As at 31 July* 2003 £	2004 £	2005 £
Fixed assets				
Tangible assets	9	1,087,368	2,126,858	3,724,226
Investment	10	91,854	–	–
		1,179,222	2,126,858	3,724,226
Current assets				
Stocks	11	240,874	188,650	190,253
Debtors	12	2,558,962	3,347,520	3,037,480
Cash at bank and in hand		111,431	11,546	1,642,136
		2,911,267	3,547,716	4,869,869
Creditors: amounts falling due within one year	13	(3,543,936)	(5,268,802)	(6,465,629)
Net current liabilities		(632,669)	(1,721,086)	(1,595,760)
Total assets less current liabilities		546,553	405,772	2,128,466
Creditors: amounts falling due after one year	14	(524,054)	(669,005)	(1,525,775)
Provisions for liabilities and charges	17	(35,000)	(22,500)	(42,000)
Net assets/(liabilities)		(12,501)	(285,733)	560,691
Capital and reserves				
Called up share capital	18	82,500	82,500	82,500
Share premium account	19	88,440	88,440	88,440
Profit and loss account	19	(183,441)	(706,192)	155,046
Revaluation reserve	19	–	249,519	234,705
Equity shareholders' surplus/(deficit)	19	(12,501)	(285,733)	560,691

Cash flow statement

	Notes	Year ended 31 July 2003 £	2004 £	2005 £
Net cash inflow from operating activities	20(a)	712,480	1,104,043	3,293,649
Returns on investments and servicing of finance				
Interest received		–	–	12,623
Interest paid		(46,566)	(101,034)	(133,090)
		(46,566)	(101,034)	(120,467)
Taxation		(35,774)	(75,975)	(65,755)
Capital expenditure and financial investment				
Payments to acquire tangible assets		(272,307)	(849,599)	(1,289,113)
Receipts from sales of tangible assets		19,500	177,858	161,555
Loan made to related party	24	–	(111,724)	(683,569)
Net cash outflow for capital expenditure and financial investment		(252,807)	(783,465)	(1,811,127)
Equity dividends paid		(325,000)	(495,000)	–
Net cash inflow/(outflow) before financing		52,333	(351,431)	1,296,300
Financing				
Issue of ordinary share capital	20(b)	104,940	–	–
New long term bank loan	20(b)	200,000	240,000	800,000
Other new long term loans	20(b)	80,325	–	–
Repayment of long term bank loan	20(b)	(84,310)	(73,503)	(103,446)
Capital element of finance leases	20(b)	(91,251)	(170,449)	(614,857)
Net cash inflow/(outflow) from financing		209,704	(3,952)	81,697
Increase/(decrease) in cash in the year	20(b)	262,037	(355,383)	1,377,997

Reconciliation of net cash flow to movement in net debt

	Notes	Year ended 31 July 2003 £	2004 £	2005 £
Increase/(decrease) in cash in the year		262,037	(355,383)	1,377,997
Cash (inflow)/outflow from movement in debt and lease financing		(104,764)	3,952	(81,697)
Change in net debt resulting from cash flows		157,273	(351,431)	1,296,300
New finance leases		(298,937)	(541,827)	(963,391)
Waiver of loan from fixed asset investment		–	92,061	–
Movement in net debt in the year	20(b)	(141,664)	(801,197)	332,909
Opening net debt	20(b)	(484,599)	(626,263)	(1,427,460)
Closing net debt	20(b)	(626,263)	(1,427,460)	(1,094,551)

Notes to the historical financial information

1. Accounting policies

Basis of preparation

The financial information is prepared under the historical cost convention and in accordance with applicable UK accounting standards, modified to include the revaluation of certain freehold land and buildings.

Basis of consolidation

The group financial statements consolidate the financial statements of BNS Telecom Ltd and its subsidiary undertakings and were drawn up to 31 July. The profit on ordinary activities after taxation dealt with in the financial statements of the BNS Telecom Ltd was £846,424 for the year ended 31 July 2005 (2004: loss £27,751; 2003: £31,562). The financial information presented for the years ending 31 July 2003 and 31 July 2004 is for BNS Telecom Ltd only. No consolidated information has been presented for these years, as BNS Telecom Ltd's subsidiary undertakings are either dormant or non trading. The financial information presented for the year ended 31 July 2005 includes the results and cashflows of Cheapercalls.com Limited for the period from its commencement of trading on 1 January 2005.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Fixed assets

Freehold buildings are stated at valuation, less depreciation with interim assessments performed between full valuations and whenever there are indications of a material change in value. Surpluses arising from the professional valuations of properties are taken directly to the revaluation reserve, with the exception of surpluses on properties which reverse a previous impairment, which are credited to the profit and loss account (up to the amount of the previous impairment charge). Deficits are eliminated against any revaluation reserve in respect of that property with any excess, to the extent that it represents an impairment, being charged to the profit and loss account. Surpluses or deficits realised on the disposal of an asset are transferred from the revaluation reserve to the profit and loss account reserve. All other fixed assets are stated at cost less depreciation.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life, as follows:

Freehold buildings	– 2% straight line
Fixtures, fittings and office equipment	– 15% straight line
Computer equipment	– 33% straight line
Motor vehicles	– 25% reducing balance

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

1. **Accounting policies (continued)**

In the year ended 31 July 2003 (and previous years), fixtures, fittings and office equipment were depreciated at 15 per cent. on a reducing balance basis and computer equipment was depreciated at 25 per cent. on a reducing balance basis. The directors have revised their estimate of the useful economic life of such assets.

Investments

Fixed asset investments are stated at cost less provision for diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

Stock

Stock is stated at the lower of cost and net realisable value.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to BNS Telecom Ltd and its subsidiary undertakings, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable and receivable under operating leases are charged or credited to the profit and loss account on a straight line basis over the lease term.

Pensions

BNS Telecom Ltd operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

1. Accounting policies (continued)

Revenue recognition

Revenue is generated from the sale of goods and services to customers and is recognised in the following ways for each category:

Telephone calls	–	revenue from calls is recognised at the time the call is made over BNS Telecom Ltd and its subsidiary undertakings network.
Line access charges	–	revenue from line access charges is recognised evenly over the period to which the access contract relates.
Hardware & installation	–	revenue from the sale of hardware and installation services is recognised when the hardware is accepted by the customer.
Maintenance support	–	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.

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

Installation costs

Costs are incurred by BNS Telecom Ltd and subsidiary undertakings from third parties relating to the initial transfer and connection of new customers to the BNS Telecom Ltd and subsidiary undertakings billing platform. Where these costs are not recharged to the customer, they are expensed to the profit and loss account when incurred.

Prior year adjustment

Revenue recognition

In the year ended 31 July 2004 the Board reviewed BNS Telecom Ltd's accounting policies and the accounting practices adopted in respect of line access revenues. These were amended to recognise revenues evenly over the period of the contract. Previously, the practice had been to recognise such revenue as contracts were signed and services were invoiced.

In the year ended 31 July 2004 the Board reviewed BNS Telecom Ltd's accounting policies and the accounting practices adopted in respect of maintenance revenues. These were amended to recognise revenue evenly over the period of the contract, unless discounts on the provision of maintenance have been granted to customers. Such discounts are now recognised in the year the discount is granted. Previously income was recognised during the discounted period, by spreading total anticipated net income evenly over the full period of the maintenance contract.

The new practices have been adopted to bring the accounting in line with FRS 5 (Application note G) and industry best practice. The prior year adjustment relating to these changes gives rise to a net reduction in post tax profit in 2003 of £170,238. The impact of these changes on reserves as at 1 August 2002 has been to reduce them by £71,303.

1. **Accounting policies (continued)**

Costs deferred in the balance sheet

Prior to the year ended 31 July 2004, certain costs associated with securing new customer contracts and transferring their network connection were deferred and carried forward in the balance sheet as work in progress or prepayments. These costs are now expensed as incurred to bring the accounting in line with industry best practice. This change in accounting policy has also been reflected by way of a prior year adjustment, resulting in a net reduction in post tax profit in 2003 of £135,004. The impact of these changes on reserves as at 1 August 2002 has been to reduce them by £71,548.

The financial information as presented reflects the application of the revised accounting policies for each of the years ended 31 July 2003, 2004 and 2005.

2. **Turnover**

Turnover, which is stated net of value added tax, represents the sales value of work done recognised in accordance with the accounting policies stated above. Turnover is attributable to one continuing activity, that of the supply and maintenance of telecommunication services and systems to customers in the United Kingdom.

3. **Operating profit**

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Operating profit is stated after charging/(crediting):			
Depreciation of owned assets	38,368	170,490	218,302
Depreciation of assets under finance lease	145,719	207,334	246,920
Loss on disposal of tangible assets	20,066	45,773	28,359
Operating lease rentals - land and buildings	–	–	82,369
Operating lease rentals - fixtures, fittings equipment and motor vehicles	68,125	48,907	25,308
Auditors' remuneration	8,000	29,500	39,750
Rental income	–	–	(9,750)

4. Directors' emoluments

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Emoluments	63,889	340,663	484,748
Contributions paid to money purchase pension schemes	900	6,087	4,400

The amounts above include compensation paid to directors in the year ended 31 July 2005 for loss of office of £nil (2004: £37,559, 2003: nil).

	Year ended 31 July		
	2003	*2004*	*2005*
	No.	*No.*	*No.*
Members of money purchase pension schemes	3	4	3

The amounts in respect of the highest paid director are as follows:

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Emoluments	39,722	156,638	145,822
Contributions paid to money purchase schemes	300	1,450	1,950

5. Staff costs

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Wages and salaries	1,106,099	2,250,729	3,042,569
Social security costs	135,434	245,469	355,261
Other pension costs	20,242	16,053	23,096
	1,261,775	2,512,251	3,420,926

The monthly average number of employees (including directors) during the year ended 31 July 2005 was 154 (2004: 100, 2003: 59).

6. Interest payable and similar charges

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Bank loans and overdrafts	11,905	31,212	72,673
Other interest payable	6,895	30,178	7,031
Finance charges payable under finance leases and hire purchase contracts	27,766	39,644	53,386
	46,566	101,034	133,090

7. Taxation

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Current tax:			
UK corporation tax	–	25,500	378,953
Tax overprovided in previous years	–	–	(13,953)
Total current tax	–	25,500	365,000
Deferred tax			
Origination and reversal of timing differences	1,000	(12,500)	19,500
Deferred tax	1,000	(12,500)	19,500
Tax on profit/(loss) on ordinary activities	1,000	13,000	384,500

(b) Factors affecting current tax charge

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Profit/(loss) on ordinary activities before taxation	32,562	(14,751)	1,230,924
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of corporation tax of 30% (2004: 30%; 2003: 30%)	9,769	(4,425)	369,277
Effects of:			
Non deductible expenses and non taxable income	26,088	29,793	20,512
Capital allowances less than/(in excess of) depreciation	(660)	13,346	(11,273)
Adjustments in respect of previous periods	–	–	(13,953)
Other tax adjustments	(35,197)	(13,214)	437
	(9,769)	29,925	(4,277)
Current tax charge	–	25,500	365,000

(c) Factors that may affect the future tax charges

There would be a liability to taxation in respect of capital gains on properties if those properties were to realise the value stated in the balance sheet at 31 July 2005 of approximately £66,000 (2004: £74,000, 2003: £nil).

8. Dividends

	Year ended 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Equity dividends on ordinary shares:			
Interim paid	325,000	495,000	–
	325,000	495,000	–

The dividend payments in the year ended 31 July 2003 and 2004 were made based on management information drawn up under accounting policies which were in use at the date the dividends were paid.

9. Tangible fixed assets

	Freehold land and buildings £	Fixtures, fittings and office equipment £	Computer equipment £	Motor vehicles £	Total £
Cost or valuation:					
At 1 August 2002	189,650	371,150	–	373,341	934,141
Additions	76,489	133,677	–	361,078	571,244
Disposals	–	–	–	(83,275)	(83,275)
Reclassification	–	(173,801)	173,801	–	–
At 31 July 2003	266,139	331,026	173,801	651,144	1,422,110
Additions	311,581	204,814	260,834	614,197	1,391,426
Revaluations	233,864	–	–	–	233,864
Disposals	–	(106,981)	–	(223,483)	(330,464)
At 31 July 2004	811,584	428,859	434,635	1,041,858	2,716,936
Additions	957,296	85,321	179,734	1,030,153	2,252,504
Disposals	(47,000)	(74,086)	(20,674)	(254,889)	(396,649)
At 31 July 2005	1,721,880	440,094	593,695	1,817,122	4,572,791
Depreciation:					
At 1 August 2002	7,500	93,405	–	93,459	194,364
Disposals	–	–	–	(43,709)	(43,709)
Charge for the year	3,672	60,074	–	120,341	184,087
Reclassification	–	(46,566)	46,566	–	–
At 31 July 2003	11,172	106,913	46,566	170,091	334,742
Disposals	–	(59,527)	–	(47,306)	(106,833)
Revaluation	(15,655)	–	–	–	(15,655)
Charge for the year	10,654	94,867	118,453	153,850	377,824
At 31 July 2004	6,171	142,253	165,019	276,635	590,078
Disposals	(1,190)	(49,065)	(11,497)	(144,983)	(206,735)
Provided during the year	15,741	70,634	139,405	239,442	465,222
At 31 July 2005	20,722	163,822	292,927	371,094	848,565
Net book amount					
At 31 July 2005	1,701,158	276,272	300,768	1,446,028	3,724,226
At 31 July 2004	805,413	286,606	269,616	765,223	2,126,858
At 31 July 2003	254,967	224,113	127,235	481,053	1,087,368

9. Tangible fixed assets (continued)

The net book amount of fixtures, fittings, computer equipment and motor vehicles include an amount of £1,433,196 (2004: £927,818; 2003: £481,053) in respect of assets held under finance leases and hire purchase contracts.

Included within fixtures, fittings and office equipment are assets acquired for the purpose of letting to customers under operating leases with a cost of £5,413 (2004: £75,404) and accumulated depreciation of £3,721 (2004: £38,216).

The two freehold properties were individually valued on the basis of open market value at £480,000 by Smith Cole Wright, Chartered Surveyors, on 12 February 2004, and £320,000 by Sanderson Weatherall, Chartered Surveyors, as at 31 July 2004. The valuations were in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Both parties were external to BNS Telecom Ltd and its subsidiary undertakings. The directors of BNS Telecom Ltd are not aware of any material change in value and consequently the valuations have not been updated.

Included in cost or valuation of freehold land and buildings at 31 July 2004 is an amount of £249,519 in respect of this valuation.

On the historical cost basis, freehold land and buildings would have been included as follows:

	£
Cost:	
At 31 July 2003	266,139
At 31 July 2004	577,723
At 31 July 2005	1,498,229
Cumulative depreciation based on cost:	
At 31 July 2003	11,172
At 31 July 2004	20,329
At 31 July 2005	30,276

10. Investments

	£
Cost:	
At 31 July 2003 and 31 July 2004	91,854
Provisions:	
At 31 July 2003	–
Charge for year	91,854
At 31 July 2004	91,854
Net book amount	
At 31 July 2004	–
At 31 July 2003	91,854

The cost of investments at 1 August 2003 and 31 July 2004 includes £9,447 relating to listed investments. The balance of £82,407 represents shares in BNS Telecom Ltd subsidiary undertakings.

Details of the investments in which BNS Telecom Ltd and its subsidiaries hold 20 per cent. or more of the nominal value of any class of share capital are as follows:

Name of company	*Country of registration*	*Proportion of Ordinary shares held*	*Nature of business*
Chamber Telecom Limited	England and Wales	100%	Dormant
Jack and Jill Kindergarten Limited	England and Wales	25%	Non-trading

BNS Telecom Ltd also owned 100% of the preference share capital of Jack and Jill Kindergarten Limited during the years ended 31 July 2003 and 31 July 2004.

The financial information presented in respect of the years ended 31 July 2003 and 31 July 2004 is for the BNS Telecom Ltd only (see note 1 above), and hence includes the investment in subsidiary undertakings.

11. Stocks

		As at 31 July	
	2003	*2004*	*2005*
	£	£	£
Finished goods and goods for resale	240,874	188,650	190,253

12. Debtors

		As at 31 July	
	2003	*2004*	*2005*
	£	£	£
Trade debtors	880,399	1,382,663	1,246,260
Other debtors	154,968	121,876	8,635
Loans to directors (note 23)	503,395	773,630	–
Loans to related companies (note 24)	3,410	115,134	798,703
Prepayments and accrued income	1,016,790	954,217	983,882
	2,558,962	3,347,520	3,037,480

13. Creditors: amounts falling due within one year

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Bank loans and overdrafts	66,187	362,018	683,742
Obligations under finance leases and hire purchase contracts	147,453	407,983	527,170
Trade creditors	1,751,245	2,383,084	2,446,054
Corporation tax	155,923	25,500	324,745
Other taxes and social security costs	455,072	268,413	362,352
Accruals and deferred income	968,056	1,821,804	2,121,566
	3,543,936	5,268,802	6,465,629

As at 31 July 2005 the bank loans and overdraft were secured by fixed and floating charges over the assets of BNS Telecom Ltd and its subsidiaries.

14. Creditors: amounts falling due after more than one year

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Bank loans (note 15)	119,330	245,494	872,917
Other loans	92,061	–	–
Obligations under finance leases and hire purchase contracts	312,663	423,511	652,858
	524,054	669,005	1,525,775

15. Loans

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Amounts falling due:			
In one year or less or on demand	66,187	106,520	175,651
In more than one year but not more than two years	66,187	80,718	121,586
In more than two years but not more than five years	145,204	97,942	364,757
In more than five years	–	66,834	386,574
	277,578	352,014	1,048,568
Less: included in creditors: amounts falling due within one year	(66,187)	(106,520)	(175,651)
	211,391	245,494	872,917

15. Loans (continued)

	2003	2004	2005
	As at 31 July		
	£	£	£
Details of loans not wholly repayable within five years are as follows:			
£800,000 mortgage at the bank base rate plus 2.5% per annum, repayable in 180 monthly instalments of £7,285 which commenced in February 2005	–	–	782,087
£240,000 mortgage at the bank base rate plus 2.5% per annum, repayable in 180 monthly instalments of £2,847 which commenced in December 2003	–	230,070	212,475
	–	230,070	994,502
Less: included in creditors: amounts falling due within one year	–	(32,640)	(121,585)
	–	197,430	872,917

16. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

	2003	2004	2005
	As at 31 July		
	£	£	£
Amounts payable:			
Within one year	175,796	452,198	580,774
In two to five years	335,458	467,154	731,854
	511,254	919,352	1,312,628
Less: finance charges allocated to future periods	(51,138)	(87,858)	(132,600)
	460,116	831,494	1,180,028
Included in liabilities falling due within one year	(147,453)	(407,983)	(527,170)
	312,663	423,511	652,858

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

Annual commitments under non-cancellable operating leases relating to buildings, fixtures, fittings, computer equipment and motor vehicles, are as follows:

	Land and Buildings As at 31 July			*Other As at 31 July*		
	2003	2004	2005	2003	2004	2005
	£	£	£	£	£	£
Operating leases which expire:						
Within one year	–	–	88,933	16,104	11,227	–
In two to five years	–	–	–	–	–	7,385
	–	–	88,933	16,104	11,227	7,385

17. Provisions for liabilities and charges

Provisions for liabilities and charges comprises:

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Deferred taxation	35,000	22,500	42,000

The deferred tax liability is made up as follows:

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Accelerated capital allowances	35,000	22,500	42,000

18. Share capital

Authorised

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Ordinary shares of £1 each	100,000	100,000	100,000

Allotted, called up and fully paid

	As at 31 July			*As at 31 July*		
	2003	*2004*	*2005*	*2003*	*2004*	*2005*
	No.	*No.*	*No.*	*£*	*£*	*£*
Ordinary shares of £1 each	82,500	82,500	82,500	82,500	82,500	82,500

On 27 April 2005 BNS Telecom Ltd granted share options to one director over 2,947 ordinary shares with an exercise price of £84.95 per share which are ordinarily exercisable at any time after the third anniversary of the date of the grant and which ordinarily lapse after the tenth anniversary of the date of the grant. Prior to the share-for-share exchange referred to in note 26, the exercise price was £84.95 per share. Following the share-for-share exchange referred to in note 27, options over 1,547,175 ordinary shares with the exercise price of approximately 16.18p per share exist in BNS Telecom Group plc.

19. Reconciliation of shareholders' funds/(deficit) and movement on reserves

	Revaluation reserve	*Share capital*	*Share premium account*	*Profit and loss account*	*Total Share-holders' funds/ (deficit)*
	£	*£*	*£*	*£*	*£*
At 1 August 2002, as restated (note 1)	–	66,000	–	109,997	175,997
Profit for the year, as restated	–	–	–	31,562	31,562
Dividends and other appropriations	–	–	–	(325,000)	(325,000)
Arising on share issues	–	16,500	88,440	–	104,940
At 1 August 2003, as restated	–	82,500	88,440	(183,441)	(12,501)
Loss for the year	–	–	–	(27,751)	(27,751)
Revaluation of fixed assets	249,519	–	–	–	249,519
Dividends and other appropriations	–	–	–	(495,000)	(495,000)
At 31 July 2004	249,519	82,500	88,440	(706,192)	(285,733)
Profit for the year	–	–	–	846,424	846,424
Realised revaluation surplus on disposal of property	(10,210)	–	–	10,210	–
Excess depreciation charge on on revalued assets	(4,604)	–	–	4,604	–
At 31 July 2005	234,705	82,500	88,440	155,046	560,691

20. Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	As at 31 July		
	2003	*2004*	*2005*
	£	*£*	*£*
Operating profit	79,128	86,283	1,351,391
Depreciation of tangible assets	184,087	377,824	465,222
Loss on disposal of tangible assets	20,066	45,773	28,359
Amounts written off investments	–	91,854	–
Waiver of loan from fixed asset investment	–	(92,061)	–
Increase/(decrease) in stocks	46,917	52,224	(1,603)
Decrease/(increase) in debtors	(1,445,645)	(676,834)	993,609
Increase in creditors within one year	1,827,927	1,218,980	456,671
Net cash inflow from operating activities	712,480	1,104,043	3,293,649

(b) Analysis of changes in net debt

	1 August 2002	*Cash flow*	*Non cash flow*	*31 July 2003*
	£	*£*	*£*	*£*
Cash at bank and in hand	1,160	110,271	–	111,431
Bank overdrafts	(151,766)	151,766	–	–
Cash	(150,606)	262,037	–	111,431
Current asset investments	–	105,009	–	105,009
Finance leases	(225,094)	63,915	(298,937)	(460,116)
Loans due within one year	(9,012)	(57,175)	–	(66,187)
Loans due after one year	(99,887)	(111,504)	–	(211,391)
Net debt	(484,599)	262,282	(298,937)	(521,254)

	1 August 2003	*Cash flow*	*Non cash flows*	*31 July 2004*
	£	*£*	*£*	*£*
Cash at bank and in hand	111,431	(99,885)	–	11,546
Bank overdrafts	–	(255,498)	–	(255,498)
Cash	111,431	(355,383)	–	(243,952)
Finance leases and hire purchase contracts	(460,116)	170,449	(541,827)	(831,494)
Loans due within one year	(66,187)	(40,333)	–	(106,520)
Loans due after one year	(211,391)	(126,164)	92,061	(245,494)
	(626,263)	(351,431)	(449,766)	(1,427,460)

20. Notes to the cash flow statement (continued)

(b) Analysis of changes in net debt (continued)

	1 August 2004	*Cash flow*	*Non cash flows*	*31 July 2005*
	£	*£*	*£*	*£*
Cash at bank and in hand	11,546	1,630,590	–	1,642,136
Bank overdrafts	(255,498)	(252,593)	–	(508,091)
Cash	(243,952)	1,377,997	–	1,134,045
Finance leases and hire purchase contracts	(831,494)	614,857	(963,391)	(1,180,028)
Loans due within one year	(106,520)	103,446	(172,577)	(175,651)
Loans due after one year	(245,494)	(800,000)	172,577	(872,917)
	(1,427,460)	1,296,300	(963,391)	(1,094,551)

21. Capital commitments

Amounts contracted for at 31 July 2005 but not provided in the financial statements amounted to £nil (2004: £nil; 2003: £nil).

22. Pension commitments

BNS Telecom Ltd and its subsidiary undertakings operate a defined contribution pension scheme for the benefit of all directors and employees. The assets of the scheme are held separately from those of BNS Telecom Ltd and its subsidiary undertakings in an independently administered fund. The contributions charged to the profit and loss account are £23,096 (2004: £16,053; 2003: £20,242). The unpaid contributions outstanding at year end are £nil (2004: £nil; 2003: £nil).

23. Transactions with directors

Included within debtors (note 12) are the following amounts relating to loans to directors.

	GG Moat	*SI Sanderson*	*RJ Horton*	*CAP Hedley*	*Total*
	£	*£*	*£*	*£*	*£*
Amounts outstanding at 1 August 2002	348,692	–	–	–	348,692
Net movement in year	154,703	–	–	–	154,703
Amounts outstanding at 31 July 2003	503,395	–	–	–	503,395
Amounts advanced	805,971	26,235	26,235	18,000	876,441
Amount repaid	(538,706)	(24,750)	(24,750)	(18,000)	(606,206)
Amounts outstanding 31 July 2004	770,660	1,485	1,485	–	773,630
Amounts advanced	1,578,755	–	–	–	1,578,755
Amount repaid	(2,349,415)	(1,485)	(1,485)	–	(2,352,385)
Amounts outstanding 31 July 2005	–	–	–	–	–
Maximum outstanding during the year ended 31 July 2005	1,713,162	1,485	1,485	–	
Maximum outstanding during the year ended 31 July 2004	973,919	15,000	26,235	18,000	

The loans are unsecured and interest free. The loans are repayable on demand. All amounts outstanding at 31 July 2004 were repaid in full by 30 April 2005.

24. Related party transactions

Year ended 31 July 2003

During the year, the company advanced £154,703 to Mr G G Moat. At the end of year the amount outstanding of the interest free loan advanced to Mr G G Moat was £503,395.

Year ended 31 July 2004

During the year, fixed assets were sold to Moat Properties Limited, a company controlled by Mr G G Moat. The transactions were at arm's length and amounted to £96,724. The balance owed by Moat Properties Limited at the year end was £111,724. This amount, which is included within debtors (note 12) represents an interest free loan which is unsecured and is repayable to BNS Telecom Ltd on demand.

During the year, fixed assets were also sold to Mr G G Moat. The transactions were at arm's length and amounted to £19,101. The full balance due from Mr G G Moat in respect of these transactions was outstanding at the year end and is included in debtors (note 12) as disclosed in transactions with directors (note 23).

A debt of £92,061, due to Jack and Jill Kindergarten, was waived during the year. BNS Telecom had a 25 per cent. interest in the ordinary share capital and owned 100 per cent. of the preference share capital of Jack and Jill Kindergarten Limited. The remaining 75 per cent. of the ordinary share capital is owned by Mr G G Moat.

24. Related party transactions (continued)

Year ended 31 July 2005

At the year end, an amount of £798,703 (2004: £111,724) is included within debtors (note 12) relating to a loan to Moat Properties Limited, a company controlled by Mr G G Moat, a director and controlling shareholder of BNS Telecom Ltd. The loan is unsecured and is repayable to BNS Telecom Ltd on demand. In the prior year, £3,410 was included within debtors (note 12) relating to an amount due from Jack and Jill Kindergarten Limited. This amount has been settled during the year.

During the year, a motor vehicle was sold by Mr G G Moat to the BNS Telecom Ltd and its subsidiaries. The transaction was at arm's length and amounted to £57,750.

During the year, the BNS Telecom Ltd acquired the ordinary share capital of Cheapercalls.com Limited from Mr G G Moat. The transaction took place prior to the commencement of trading of Cheapercalls.com Limited and the consideration involved was £1. BNS Telecom Ltd also disposed of its 25 per cent. interest in the ordinary share capital and its 100 per cent. interest in the preference share capital of Jack and Jill Kindergarten Limited to Mr G G Moat. The transaction was at arm's length and the consideration involved was £1. A debt of £92,061, due to Jack and Jill Kindergarten, was waived during the prior year.

25. Contingent liabilities

BNS Telecom Ltd has provided a debenture and guarantee to its banks as security over its own bank borrowings and those of its subsidiary, Cheapercalls.com Limited. At the year end the bank borrowings of Cheapercalls.com Limited amounted to £33,111.

26. Post balance sheet events

On 26 August 2005, BNS Telecom Ltd completed the acquisition of 78 per cent. of the ordinary share capital of Modus Telecom Ltd for a consideration of £50,000 plus acquisition costs of £55,000.

On 28 October 2005 the loan of £798,703 to Moat Properties Limited was repaid in full.

27. Controlling party

In the directors' opinion, BNS Telecom Ltd's controlling party is Mr G G Moat. On 7 October 2005, BNS Telecom Ltd became a subsidiary of BNS Telecom Group Limited by way of a share-for-share exchange.

PART IV

ADDITIONAL INFORMATION

1. Incorporation and principal activities

(a) The Company was incorporated and registered in England and Wales on 1 August 2005 as a company limited by shares under the Act with the name Crossco (886) Limited and with registered number 5523489. The name of the Company was changed on 6 October 2005 to BNS Telecom Group Limited. On 18 October 2005 the Company was re-registered as a public limited company under the name BNS Telecom Group plc.

(b) The Company's registered office and principal place of business is Princess Way, Low Prudhoe Industrial Estate, Low Prudhoe, Northumberland NE42 6NJ.

(c) The liability of the members of the Company is limited.

(d) The principal legislation under which the Company operates is the Act and regulations made thereunder.

(e) The Company has four subsidiaries (all incorporated in England and Wales) details of which are set out below:

Name	*Date of incorporation*	*Authorised share capital*	*Issued share capital*	*Nature of business*	*Percentage of shares held by the Company*
BNS	23 July 1996	£100,000	£82,500	Telecommunications	100
Modus Telecom	6 September 2002	£400	£400	Telecommunications	78
Cheapercalls	18 December 2002	£100	£1	Telecommunications	100
Chamber Telecom	23 July 1996	£50,000	£50,000	Dormant	99.99

2. Share capital

(a) At the date of its incorporation, the authorised share capital of the Company was £100 divided into 100 ordinary shares of £1 of which one subscriber share was in issue, nil paid.

(b) On 7 October 2005, the subscriber share was transferred to Garry Moat.

(c) On 7 October 2005:

(i) each of the 100 ordinary shares of £1 each was subdivided into ten Ordinary Shares;

(ii) the authorised share capital was increased to £6,500,000 divided into 65,000,000 Ordinary Shares;

(iii) the Company issued 43,312,490 Ordinary Shares credited as fully paid up pursuant to the share for share agreement referred to paragraph 11 of this Part IV and paid up in full the ten unpaid Ordinary Shares held by Garry Moat;

(iv) the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities (as defined in that section) of an aggregate nominal value not exceeding the authorised but unissued share capital at the date of the passing of the resolution, such authority expiring on the day preceding the fifth anniversary of the date of the resolution, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred thereby had not expired; and

(v) the Directors were empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if subsection (1) of section 89 of the Act did not apply to any such allotment such disapplication to expire at the date of the annual general meeting of the Company next following the date the resolution was passed, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred thereby had not expired. This power was limited to the allotment for cash (otherwise than pro rata to existing holdings or pursuant to the exercise of options granted prior to Admission) of ordinary shares in the capital of the Company up to an aggregate nominal value of £241,500, representing approximately 4.8 per cent. of the nominal value of the Enlarged Issued Share Capital.

(d) Following a board meeting of the Company held on 17 October 2005, options over 1,547,175 Ordinary Shares were granted to David Horrocks at an exercise price of approximately 16.18p per share, in accordance with the provisions of the Old Share Option Scheme, in replacement of his pre-existing options over ordinary shares in BNS.

(e) On 21 October 2005, the rules constituting the Share Option Scheme and the SAYE Scheme were approved and the directors of the Company were authorised to establish and to operate and to administer such schemes in accordance with their rules and to do all acts and things and execute all such documents as they may in their absolute discretion consider necessary or expedient to implement and carry such schemes into effect.

(f) The authorised and issued share capital of the Company at the date of this document is as follows:

	Authorised		*Issued (fully paid)*	
	Number	*£*	*Number*	*£*
Ordinary Shares	65,000,000	6,500,000	43,312,500	4,331,250.00

(g) Immediately following the Placing and Admission, the authorised and issued share capital of the Company will be as follows:

	Authorised		*Issued (fully paid)*	
	Number	*£*	*Number*	*£*
Ordinary Shares	65,000,000	6,500,000	49,793,982	4,979,398.20

(h) On Admission the Ordinary Shares will rank *pari passu* in all respects.

(i) Save as disclosed in paragraph 7 below:

(i) no share capital of the Company, or of any other company within the Group, is under option or has been agreed, conditionally or unconditionally, to be put under option; and

(ii) other than in connection with the Placing or upon the exercise of options granted pursuant to the Share Option Plans there is no present intention to issue any of the authorised but unissued share capital of the Company.

3. Memorandum of Association

The Memorandum of Association of the Company provides that the Company's principal objects are to carry on all or any of the businesses of general merchants and traders. The objects of the Company are set out in full in Clause 4 of the Memorandum of Association.

4. Articles of Association

The Articles contain, *inter alia*, provisions to the following effect:

(a) ***Voting Rights***

1. *Votes attaching to members*

   Subject to any special rights or restrictions as to voting attached by, or in accordance with, the Articles to any class of shares, on a show of hands every member who is present in person (or being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote and on a poll every member who is present in person or by corporate representative or by proxy shall have one vote for every ordinary share of which he is the holder.

2. *No voting rights where calls outstanding*

   No member shall, unless the directors otherwise determine, be entitled to vote in respect of any shares if any call or other sum presently payable by him to the Company in respect of the shares remains unpaid.

(b) ***Transfer of Shares***

1. *Transfer of shares held in uncertificated form*

   Title to shares held in uncertificated form may be transferred by means of a relevant system (as defined in the CREST Regulations).

2. *Form of transfer*

   Transfers of shares held in certificated form may be in any usual or common form or in any other form which the Directors may approve and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register in respect of such shares.

   Subject to the CREST Regulations, the registration of transfers may be suspended at such times and for such periods as the Directors may determine and either generally or in respect of any class of shares. The register shall not be closed for more than 30 days in any year.

   The Directors may in their absolute discretion and without assigning any reason therefor refuse to register any transfer of shares:

   (i) in certificated form (not being fully paid shares) provided that the exercise of such discretion does not prevent dealings in the shares from taking place on an open and proper basis; and

   (ii) (whether fully paid or not and whether in certificated or uncertificated form) in favour of more than four persons jointly.

   The Directors may decline to recognise any instrument of transfer of a share in certificated form unless the instrument of transfer is in respect of only one class of share and is lodged accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require.

   The Directors may refuse to register a transfer of a share in uncertificated form in any case where the Company is entitled to refuse (or exempted from the requirement) under the CREST Regulations to register the transfer.

   The Directors may also decline to register a transfer of shares (except for certain types of transfer) after there has been a failure to provide the Company with information concerning interests in those shares required to be provided under the Articles or the Act until such failure has been remedied.

(c) ***Pre-emption***

There are no pre-emption rights on transfer attaching to the Ordinary Shares.

(d) ***Return of capital on a winding up***

The liquidator may, with a sanction of an extraordinary resolution of the Company and any other sanction required by law, divide among the members in specie or kind the whole or any part of the assets of the Company and may, for that purpose, value any assets as he deems fair and determine how the division should be carried out as between the members or different classes of members. The liquidator may also, with the like sanction, vest the whole or any part of the assets in trust for the benefit of the members, but no member shall be compelled to accept any assets upon which there is a liability.

(e) ***Dividends and other distributions***

1. *Final dividends*

The Company may by an ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Directors.

2. *Interim and fixed dividends*

If and so far as, in the opinion of the Directors, the profits of the Company justify such payments, the Directors may declare and pay the fixed dividends on any class of shares carrying a fixed dividend expressed to be payable on fixed dates on the half-yearly or other dates prescribed for the payment thereof and may also from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as they think fit.

3. *The retention of dividends*

The Directors may retain any dividend or other monies payable on or in respect of a share on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may withhold the dividend payable on shares after there has been a failure to provide the Company with information concerning interests in those shares required to be provided under the Act until such failure has been remedied.

4. *Unclaimed dividend*

Any dividend unclaimed after a period of twelve years from the date the dividend became due for payment shall be forfeited and shall revert to the Company.

5. *Distribution in specie*

The Company may upon the recommendation of the Directors by ordinary resolution direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of any other company) and the Directors shall give effect to such resolution.

(f) ***Redemption***

There are no redemption rights attaching to Ordinary Shares.

(g) ***Capitalisation of profits and reserves***

The Directors may, with the sanction of any ordinary resolution of the Company, capitalise any sum standing to the credit of any of the Company's reserve accounts or any sum standing to the credit of profit and loss account by appropriating such sum to the holders of ordinary shares in proportion to their holdings of ordinary shares and applying such sum on their behalf in paying up in full unissued shares.

(h) ***Variation of Rights***

The special rights attached to any class of shares may (subject to the provisions of the Act and unless otherwise provided by those rights) be varied or abrogated either with the consent in writing of the holders of three quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of the class but not otherwise. The special rights attached to any class of shares having preferential rights shall not, unless otherwise expressly provided by the terms of issue, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits and assets of the Company in some or all respects *pari passu* with them, but in no respect in priority to them. The special rights attached to the Ordinary Shares shall be deemed not to be varied by the creation or issue of any further shares ranking in priority to them.

(i) ***Alteration of Share Capital***

1. *Increase in share capital*

   The Company may by ordinary resolution increase its share capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

2. *Consolidation and sub division*

   The Company may by ordinary resolution:

   2.1 consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;

   2.2 subject to the provisions of the Act, sub divide shares into shares of smaller amounts.

3. *Cancellation*

   The Company may by ordinary resolution cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

4. *Reduction*

   Subject to the provisions of the Act, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account or undistributable reserve in any way.

5. *Purchase of own shares*

   Subject to the provisions of the Act, the Company may purchase any of its own shares.

(j) ***Forfeiture and Lien***

1. *Notice on failure to pay a call*

   If a member fails to pay in full any call or instalment of a call on the due date for payment the Directors may at any time after the failure serve a notice on him requiring payment and shall state that in the event of non-payment in accordance with such notice the shares on which the call was made will be liable to be forfeited.

2. *Lien on partly-paid shares*

   The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such share.

3. *Sale of shares subject to lien*

The Company may sell in such manner as the Directors think fit any share on which the Company has a lien, but no sale shall be made until fourteen days after a notice in writing stating and demanding payment of the sum presently payable and giving notice of intention to sell.

(k) ***Directors***

1. *Number of directors*

Unless otherwise determined by ordinary resolution the number of directors should not be fewer than two but shall not be subject to any maximum.

2. *Directors' fees*

The aggregate fees which the Directors shall be entitled to receive for their services in the office of Director shall not exceed £200,000 per annum, or such larger sum as the Company may by ordinary resolution determine.

3. *Other remuneration of directors*

Any Director who holds any executive office (including the office of chairman or deputy chairman whether or not such office is held in an executive capacity) or who serves on any committee of the Directors, or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Directors or any committee of the Directors may determine.

4. *Directors' expenses*

The Directors may be paid all expenses properly incurred by them in connection with attending meetings of the Directors or committees of Directors or shareholders' meetings or otherwise in connection with the discharge of their duties.

5. *Directors' pensions and other benefits*

The Company may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any Director or former Director and for any member of his family or any person who is or was dependent on him, and may contribute to any fund and pay premiums for the provision or purchase of any such benefit.

6. *Age limit*

Any provision of the Act which, subject to the provisions of the Articles, would have the effect of rendering any person ineligible for appointment as a director or liable to vacate office as a Director on account of his having reached any specified age or of requiring special notice or any other special formality in connection with the appointment of any director over a specific age, shall not apply to the Company.

7. *Retirement by rotation*

Subject to the provisions of the Act, at each annual general meeting one third of the Directors for the time being (or, if their number is not three or a multiple of three, the number nearest to one third) shall retire from office by rotation provided that, if there is only one Director who is subject to retirement by rotation, he shall retire.

8. *Restrictions on voting*

Save as provided in the Articles, a Director shall not vote in respect of any contract or arrangement or any other proposal in which he has an interest which (together with any interest of any person connected with him) is, to his knowledge, a material interest (other than by virtue of his interest in shares in or through the Company). A Director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

9. Subject to the provisions of the Act, a Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:

the giving of any security, guarantee or indemnity in respect of:

(a) money lent or obligations incurred by him or by any other person at the request or for the benefit of the Company or any of its subsidiary undertakings; or

(b) a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

where the Company or any of its subsidiary undertakings is offering securities in which offer he is or may be entitled to participate as a holder of securities, or in the underwriting or sub-underwriting of which he is to participate;

any proposal concerning another company in which he and any persons connected with him do not to his knowledge hold an interest representing one per cent or more of either any class of the equity share capital or the voting rights in such company;

any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

any proposal concerning insurance which the Company proposes to purchase or maintain for the benefit of directors or for the benefit of persons including directors.

(l) ***Borrowing Powers***

Subject to the Articles and to the provisions of the Act, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. There are no restrictions on the power of the Directors in this regard.

(m) ***Untraceable members***

If cheques or warrants in respect of dividends are returned undelivered or are left uncashed on two consecutive occasions, the Directors may cause the Company to cease sending such cheques or warrants by post to the member or person concerned.

The Company shall be entitled to sell subject to various notice requirements at the best price reasonably obtainable any share of a member if for a period of 12 years no communication has been received by the Company from the member and no cheque or warrant sent by the Company has been cashed provided that in any such period no fewer than three dividends have been paid and no such dividend has been claimed.

(n) ***General Meetings***

An annual general meeting shall be held once in every year at such time (within a period of not more than 15 months after holding the last preceding annual general meeting) and place as may be determined by the Directors. The Directors may call general meetings whenever they think fit, and, on the requisition of members pursuant to the provisions of the Act, shall forthwith proceed to convene an extraordinary general meeting for a date not later than 28 days after the date of the notice convening the meeting.

An annual general meeting and an extraordinary general meeting called for the passing of a special resolution or resolution appointing a person as a director or (except as provided by the Act) a resolution on which special notice has been given to the Company shall be called by at least 21 clear days' notice. All other extraordinary general meetings shall be called by at least 14 clear days' notice.

Subject to the provisions of the Articles, notice of a general meeting shall be given to all the members, to all persons entitled to a share in consequence of the death or bankruptcy of a member and to the directors and auditors, and there shall appear with reasonable prominence in every such notice a statement that a member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him and that a proxy need not be a member of the Company.

(o) ***Change in control***

There are no provisions in the articles which would delay, defer or prevent a change in control of the Company.

(p) ***Shareholder ownership***

There are no provisions in the Articles which impose a requirement to disclose shareholding ownership above a certain threshold.

5. Directors

(a) ***Interests in Ordinary Shares***

The interests of the Directors (including persons connected with them within the meaning of section 346 of the Act) in Ordinary Shares as at the date of this document, and immediately on Admission, which have been or are required to be notified to the Company in accordance with sections 324 and 328 of the Act and which are or are required to be shown in the register of Directors' interests maintained under section 325 of the Act, are as follows:

Ordinary Shares

	As at the date of this document		*On Admission*	
Directors:	*No. of Ordinary Shares*	*Percentage of issued share capital*	*No. of Ordinary Shares*	*Percentage of Enlarged Issued Share Capital*
Robert Graham Wilson	1,083,075	2.50%	1,083,075	2.18
Garry George Moat	35,639,625	82.29%	28,232,217	56.70
David James Horrocks	309,750	0.72%	309,750	0.62
Barry Christopher Moat	1,082,550	2.50%	1,082,550	2.17

Options to acquire Ordinary Shares

	Type of scheme	*Date of grant*	*Ordinary Shares under option*	*Exercise Price*	*Exercise Dates From*	*To*
David James Horrocks	Old Share Option Scheme	27 April 2005	1,547,175	16.18p	27 April 2008	27 April 2015

Notes: Options over 2,947 ordinary shares in the capital of BNS were granted to David Horrocks on 27 April 2005 with an exercise price of £84.95 per share. These options were rolled over into options over 1,547,175 Ordinary Shares with an exercise price of approximately 16.18p per share following completion of the share for share agreement referred to in paragraph 11 of this Part IV.

(b) ***Directorships***

The Directors currently hold the following directorships and partnerships, other than in the Company, and have held the following directorships and partnerships within the five years prior to the publication of this document:

	Current directorships and partnerships	*Former directorships and partnerships held in last five years*
Robert Graham Wilson	Amdega Limited BNS Telecom Ltd Cheapercalls.com Limited Crossco (310) Limited Crossco (519) Limited Dinsdale Holdings Limited Goals Soccer Centres Plc Newquay Holiday Parks Limited Pactrem Limited Parkdean Holiday Parks Limited Parkdean Holidays (South West) Limited Parkdean Holidays Plc Parkdean Leisure Limited Portland Conservatories Limited Premier Dawn (EBT) Limited Premier Dawn Properties Limited Premier Direct Group plc Ruda Holiday Park Limited Southerness Holiday Village (Holdings) Limited Southerness Holiday Village Limited Texcourt Limited Upperbay Limited	Back-Catalogue.Com Limited Wessex Taverns Limited Broomco (3019) Limited Ponteland Golf Club Limited (The)
Garry George Moat	BNS Telecom Ltd Chamber Telecom Limited Cheapercalls.com Limited Jack & Jill Kindergarten Limited Moat Properties Limited Moat Properties Partnership Modus Telecom Limited	NECC Telecom Limited Business Network Services (Maintenance) Limited
David James Horrocks	BNS Telecom Ltd Cheapercalls.com Limited Red House School Limited Modus Telecom Limited	
Barry Christopher Moat	BNS Telecom Ltd Cheapercalls.com Limited Boxpipe Limited Holdagree Limited Premier Books (UK) Limited Premier Direct Group Plc Prestige Presents Limited Books U.K. Limited Shopping-at-Work.com Limited	Goodmotive Limited Actioncourt Limited Timeapart Limited

(c) ***Related party transactions***

(i) *Year ended 31 July 2003*

During the year, BNS advanced £154,703 to Garry Moat. At the end of the year the amount outstanding of the interest free loan advanced to Garry Moat was £503,395.

(ii) *Year ended 31 July 2004*

During the year, fixed assets were sold to Moat Properties Limited, a company controlled by Garry Moat. The transactions were at arm's length and amounted to £96,724. The balance owed by Moat Properties Limited at the year end was £111,724. This amount represented an interest free loan which was unsecured and was repayable to BNS on demand.

During the year, fixed assets were also sold to Garry Moat. The transactions were at arm's length and amounted to £19,101. The full balance due from Garry Moat in respect of these transactions was outstanding at the year end.

A debt of £92,061, due to Jack & Jill Kindergarten Limited, was waived during the year. BNS had a 25 per cent. interest in the ordinary share capital and owned 100 per cent. of the preference share capital of Jack & Jill Kindergarten Limited. The remaining 75 per cent. of the ordinary share capital was owned by Garry Moat.

(iii) *Year ended 31 July 2005*

During the year, a loan of £798,703 was outstanding to Moat Properties Limited, a company controlled by Garry Moat. The loan was unsecured and was repayable to BNS on demand.

£3,410 due from Jack & Jill Kindergarten Limited was settled during the year.

During the year, a motor vehicle was sold by Garry Moat to BNS. The transaction was at arm's length and amounted to £57,750.

During the year, BNS acquired the ordinary share capital of Cheapercalls.com Limited from Garry Moat. The transaction took place prior to the commencement of trading of Cheapercalls.com Limited and the consideration involved was £1. BNS also disposed of its 25 per cent. interest in the ordinary share capital and its 100 per cent. interest in the preference share capital of Jack & Jill Kindergarten Limited to Garry Moat. The transaction was at arm's length and the consideration involved was £1.

(iv) On 28 October 2005 the loan of £798,703 to Moat Properties Limited was repaid in full.

(d) ***Receiverships and liquidations***

Save as set out in paragraph 5(e) below, at the date of this document none of the Directors has:

(i) had any unspent convictions in relation to indictable offences;

(ii) been declared bankrupt or entered into an individual voluntary arrangement;

(iii) been a director of any company at the time of or within twelve months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

(iv) been a partner in a partnership at the time of, or within twelve months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of any such partnership;

(v) had his assets the subject of any receivership or has been a partner of a partnership at the time of or within the twelve months preceding any assets thereof being the subject of a receivership; or

(vi) been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) or has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

(e) Garry Moat was appointed as a director of Business Network Services (UK) Limited in September 1993. On 6 June 1997 this company was put into creditors' voluntary liquidation. There was a deficiency to creditors of £486,515.

(f) ***Terms of employment***

All the service agreements between the Directors and the Company are dated 28 October 2005.

Graham Wilson has been appointed as a non-executive Director for an initial term of two years and thereafter until terminated by the Company on 12 months' notice. He is entitled to a salary of £40,000 per annum.

Garry Moat has been appointed as Managing Director. The agreement can be terminated by either party by 12 months' notice, but not so as to expire earlier than 24 months from its commencement date. A payment in lieu of notice may be made which during the first 12 months from the commencement date would be the remainder of the 24 month period. Garry Moat is entitled to an annual salary of £140,000 per annum. He has indicated to the Board that he intends to waive his salary in the current financial year. He is entitled to the provision of a fully expensed car, a contribution of up to 6 per cent. of basic annual salary by way of pension contribution and certain other benefits.

David Horrocks has been appointed as Finance Director. The agreement can be terminated by either party on 12 months' notice, but not so as to expire earlier than 24 months from its commencement date. A payment in lieu of notice may be made which during the first 12 months from the commencement date would be the remainder of the 24 month period. David Horrocks is entitled to an annual salary of £120,000 per annum. He is also entitled to an annual bonus of 30 per cent. of his gross basic salary subject to achieving the performance requirements set by the Remuneration Committee from time to time. He is entitled to the provision of a fully expensed car, a contribution of up to 6 per cent. of basic annual salary by way of pension contribution and certain other benefits.

Barry Moat has been appointed as a non-executive Director for an initial term of two years and thereafter until terminated by the Company on 12 months' notice. He is entitled to a salary of £32,000 per annum.

(g) ***Estimate of remuneration***

The aggregate of the remuneration paid and benefits in kind (including pension contributions) granted to the Directors by the Company and its subsidiary undertakings during the financial year ended 31 July 2005 was approximately £204,000. The aggregate of the remuneration payable and benefits in kind (including pension contributions) to be granted by the Group to the Directors for the financial year ending 31 July 2006 under the arrangements in force at the date of this document is estimated to be approximately £220,000.

6. Substantial shareholders

Other than the holdings of the Directors, which are set out in paragraph 5 above, the Directors are aware of the following who, as at the date of this document, were, and on Admission are expected to be, interested, directly or indirectly, in 3 per cent. or more of the Company's capital:

	As at the date of this document		*On Admission*	
Shareholder	*No. of Ordinary Shares*	*Percentage of issued share capital*	*No. of Ordinary Shares*	*Percentage of Enlarged Issued Share Capital*
Richard Horton	2,165,625	5.00	1,702,662	3.42
Jupiter Asset Management	–	–	1,666,667	3.35
Majedie Asset Management	–	–	1,666,667	3.35
Stephen Sanderson	2,165,625	5.00	1,702,662	3.42
Tradition UK	–	–	1,851,852	3.72

7. Share Option Plans

7.1 *The BNS Telecom Limited Employees' Share Option Scheme 2005*

7.1.1 *Summary*

The Old Share Option Scheme was established by BNS on 26 April 2005. Enterprise Management Incentive ("EMI") options were granted to David Horrocks over 1,177 ordinary shares of £1.00 each in BNS on 27 April 2005 and unapproved options were granted to David Horrocks over 1,770 ordinary shares of £1.00 each in BNS on the same date (together the "Original Options").

Following the share for share exchange between the Company and the shareholders of BNS referred to in paragraph 2(c) above, David Horrocks received on 19 October 2005 new replacement EMI and unapproved options over in total 1,547,175 Ordinary Shares of equivalent value to the Original Options in accordance with the rules of the Old Share Option Scheme. The replacement options remain subject to the rules of the Old Share Option Scheme.

At the date of this document, options over 1,547,175 Ordinary Shares are capable of exercise pursuant to the rules of the Old Share Option Scheme.

7.1.2 *Employee eligibility*

David Horrocks was the only employee offered the opportunity to acquire Ordinary Shares under the Old Share Option Scheme.

7.1.3 *Granting of Options*

No further options will be granted under the Old Share Option Scheme. David Horrocks' option is personal to him and not transferable (other than on death when it can be exercised by David Horrocks' personal representatives).

7.1.4 *Performance Targets*

No performance targets were set in respect of these options.

7.1.5 *Exercise price*

The Original Options over 2,947 Ordinary Shares were granted at an exercise price of £84.95 per share (market value as agreed with the HM Revenue & Customs). These options were rolled over into options over 1,547,175 Ordinary Shares with an exercise price of approximately 16.18p per share following the completion of the share for share agreement referred to in paragraph 11 of this Part IV.

7.1.6 *Variation of share capital*

Upon any variation in the share capital of the Company, whether by way of a capitalisation issue (other than a capitalisation issue in substitution for or as an alternative to a cash dividend), a rights issue, a rights offer or any sub-division, consolidation or reduction in the Company's share capital, the exercise price and/or the number of Ordinary Shares comprised in an Option may be adjusted in such manner as the Remuneration Committee determines to be fair and reasonable (where the trustee of an employee benefit trust is the Grantor, the trustee and Remuneration Committee must together determine the adjustment).

7.1.7 *Vesting of options*

An Option will vest only at a time or times between the third anniversary of the date of grant of the Option and the tenth anniversary of that date, except in the following circumstances:

(i) Where David Horrocks ceases to be employed by the Group as a result of death, injury, disability, ill health, redundancy or retirement, or as a result of the company or the part of the business by which David Horrocks was employed ceasing to be a member or a part of the Group (a "good leaver"), the option will vest in full.

(ii) An Option will ordinarily lapse if it has not been exercised within 6 months (or 12 months in the case of cessation of employment as a result of death) of the date on which employment ceases for a good leaver.

(iii) The Remuneration Committee has the discretion to allow David Horrocks' Option to vest in whole or in part if he is transferred to work overseas and as a result would suffer less favourable tax treatment in respect of his Option or become subject to a restriction on his ability to hold or deal in the Ordinary Shares acquired or the sale proceeds received.

(iv) If David Horrocks ceases to be employed by the Group for any other reason prior to the third anniversary of the date of grant of the Option, the Option will lapse unless the Remuneration Committee, at its discretion, determines otherwise.

(v) Additionally, in the event of a takeover, reconstruction, amalgamation or winding up of the Company, an Option will immediately vest in full and will be exercisable within a specified period.

7.1.8 *Pensionability*

Gains made on the exercise of Options are not taken into account when calculating pensionable remuneration for a defined benefit pension scheme or in calculating mandatory employer contributions under a defined contribution benefit scheme.

7.1.9 *Source of shares and employee trust*

The Old Share Option Scheme allows the satisfaction of Options through the use of newly issued Ordinary Shares and Ordinary Shares acquired 'on market' either through the medium of an employee benefit trust or the holding of Ordinary Shares in treasury.

7.1.10 *Tax efficient share options*

The Old Share Option Scheme was used to grant as many options as possible as EMI options under the taxation legislation. These tax favoured options should enable the Company to minimise its employer's national insurance contributions liability on any gain which David Horrocks makes on the exercise of his Options. David Horrocks will also be able to enjoy taxation advantages.

There are certain qualifying conditions which must be satisfied by the Company and David Horrocks for Options to have EMI status. Even where these conditions are met there are certain limits on the amount and timing of the grant of Options with EMI status. Where Options could not be granted with EMI status they were granted as Options with no taxation advantages. The Old Share Option Scheme allowed the grant of both tax efficient EMI and "unapproved" Options for maximum flexibility.

7.1.11 *Amendments to the Old Share Option Scheme*

The Old Share Option Scheme may be amended at any time by the Remuneration Committee, however the provisions in the Old Share Option Scheme relating to:

(i) limits on the number of new Ordinary Shares which may be issued pursuant to the Old Share Option Scheme;

(ii) the maximum entitlement of David Horrocks under the Old Share Option Scheme;

(iii) the price at which Ordinary Shares may be acquired;

(iv) the basis for determining David Horrocks' entitlement to benefit under the Old Share Option Scheme and the terms of the shares to be provided, and for the adjustment thereof, if any, in the event of a capitalisation issue (excluding a capitalisation issue in substitution for or as an alternative to a cash dividend), rights issue or rights offer, bonus issue, sub-division or consolidation of shares or reduction of capital or any other variation of capital; and

(v) the rules governing amendment of the Old Share Option Scheme

will not be altered to confer any additional advantage on David Horrocks without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Old Share Option Scheme, to take account of a change in legislation or to obtain or maintain a favourable tax advantage, exchange control or regulatory treatment for David Horrocks, the Company or a member of the Group).

However, no amendment can be made which would adversely affect the rights of David Horrocks without his consent.

7.2 ***The BNS Telecom Group plc Employees' Share Option Scheme 2005***

7.2.1 The Company approved the Share Option Scheme by a board resolution on 21 October 2005. The Share Option Scheme contains the main features of the Old Share Option Scheme.

7.2.2 *Summary*

The Share Option Scheme provides for the granting of share options ("Options") over Ordinary Shares at the discretion of the Remuneration Committee or the trustees of any employee benefit trust created by the Company ("the Grantor"). The exercise price of such Options may be any price but, for Options granted after Admission, will be the market value of the shares. Further information on the exercise price is contained in paragraph 7.2.8 below.

Options over 267,000 Ordinary Shares are expected to be granted shortly before or on Admission (the "Admission Options") with an exercise price equal to the Placing Price. The Admission Options will ordinarily be exercisable between the third anniversary and the tenth anniversary of the date of grant.

The policy of the Remuneration Committee is to consider Option grants as and when appropriate and to ensure that the performance targets which are set have regard to prevailing conditions at the date of grant.

7.2.3 *Employee eligibility*

The Share Option Scheme will offer selected executive directors and employees of the Group the opportunity to acquire Ordinary Shares.

7.2.4 *Participation Limits*

The maximum annual value of Ordinary Shares that may be granted under Option to a participant under the Share Option Scheme cannot exceed 200 per cent. of the higher of the participant's basic salary from the Group expressed as an annual rate at the date of grant and the participant's basic salary paid by the Group for the period of 12 months ending on the last day of the month immediately preceding the month which includes the date of grant.

7.2.5 *Shareholder dilution*

The Share Option Scheme contains limits on the number of new Ordinary Shares to be issued as a result of the exercise of Options. These limits apply to both Options granted under the Share Option Scheme and options granted/awards made under any other employee share schemes which may be operated by the Group. Options/awards which have lapsed or been renounced and the Options held by David Horrocks under the Old Share Option Scheme are disregarded. Shares which have been purchased in the market, including any so purchased and held by trustees for the purposes of satisfying options or awards are disregarded. The reissue of treasury shares will be treated as a new issue of shares.

The Remuneration Committee will ensure that appropriate policies regarding the timing and amount of Options granted exist in order to spread the potential issue of new Ordinary Shares over the life of the Share Option Scheme.

The dilution limits are as follows:

7.2.5.1 All schemes limit

The rules of the Share Option Scheme provide that no more than 10 per cent. of the issued ordinary share capital of the Company, from time to time, should be issued under all share incentive schemes operated by the Group in any rolling ten year period.

7.2.5.2 Executive (discretionary) schemes limit

The rules of the Share Option Scheme provide that no more than 5 per cent. of the issued ordinary share capital of the Company, from time to time, should be issued under all executive (discretionary) share incentive schemes operated by the Group in any rolling ten year period. This 5 per cent. limit may be extended (within the 10 per cent. all schemes limit above) if the exercisability of the Options in question is dependant on the achievement of appropriately more stretching performance criteria.

7.2.6 *Granting of Options*

Prior to Admission, options could be granted at any time. On or after Admission, options can only be granted in the period of 42 days beginning on the day of Admission or in the period of 42 days beginning on the dealing day following the announcement of the Company's interim or final results, or at other times if the Grantor considers there are exceptional circumstances.

An Option will be personal to the participant and not transferable (other than on death when it can be exercised by the participant's personal representatives).

No Option can be granted more than 10 years after adoption of the Share Option Scheme and, following Admission, no Option can be granted to an employee less than six months before the date on which he is bound or entitled to retire under the terms of his contract of employment.

7.2.7 *Performance Targets*

In the case of Options granted on or after Admission, the Grantor will set performance targets which must be satisfied before the Option becomes exercisable (vests).

Performance targets once set will not be amended unless an event occurs which causes the Grantor to consider that an amended target would be a fairer measure of performance and is not materially more difficult to satisfy.

It is the intention of the Remuneration Committee that the Admission Options will vest only if the percentage growth in the Company's earnings per share over the three year period from 1 August 2005 compared to the earnings per share achieved by BNS for the year ended 31 July 2005 exceeds the percentage growth in the Retail Prices Index over the same period by three per cent. per annum compounded.

For Options granted on or after Admission, the Remuneration Committee's overall policy is that performance conditions and targets should be set at levels which are believed to be stretching and provide value to the participants commensurate with the performance achieved. The policy when deciding on performance measures is to use measures the participants can, by their actions, influence, in order to provide effective motivation.

7.2.8 *Exercise price*

The exercise price shall be determined by the Remuneration Committee. For Options granted after Admission, the exercise price will be the market value of an Ordinary Share except for any Options granted within the 42 day period beginning on the day of Admission for which the exercise price is anticipated to be the Placing Price. In the case of an Option where the Company has determined that the Option exercise will be satisfied by the issue on vesting of Ordinary Shares directly to the option holder, the amount payable per share shall not, in any event, be less than the nominal value of a share.

7.2.9 *Variation of share capital*

Upon any variation in the share capital of the Company, whether by way of a capitalisation issue (other than a capitalisation issue in substitution for or as an alternative to a cash dividend), a rights issue, a rights offer or any sub-division, consolidation or reduction in the Company's share capital, the exercise price and/or the number of Ordinary Shares comprised in an Option may be adjusted in such manner as the Remuneration Committee determines to be fair and reasonable (where the trustee of an employee benefit trust is the Grantor, the trustee and Remuneration Committee must together determine the adjustment).

7.2.10 *Vesting of options*

An Option will vest only at a time or times between the third anniversary of the date of grant of the Option and the tenth anniversary of that date, except in the following circumstances:

7.2.10.1 Where a participant ceases to be employed by the Group as a result of death, injury, disability, ill health, redundancy or retirement, or as a result of the company or the part of the business by which a participant was employed ceasing to be a member or a part of the Group (a "good leaver"), the option will vest in full.

7.2.10.2 An Option will ordinarily lapse if it has not been exercised within 6 months (or 12 months in the case of cessation of employment as a result of death) of the date on which employment ceases for a good leaver.

7.2.10.3 The Remuneration Committee has the discretion to allow a participant's Option to vest in whole or in part if he is transferred to work overseas and as a result would suffer less favourable tax treatment in respect of his Option or become subject to a restriction on his ability to hold or deal in the Ordinary Shares acquired or the sale proceeds received.

7.2.10.4 If a participant ceases to be employed by the Group for any other reason prior to the third anniversary of the date of grant of the Option, the Option will lapse unless the Remuneration Committee, at its discretion, determines otherwise.

7.2.10.5 Additionally, in the event of a takeover, reconstruction, amalgamation or winding up of the Company, an Option will immediately vest in full and will be exercisable within a specified period.

7.2.11 *Pensionability*

Gains made on the exercise of Options are not taken into account when calculating pensionable remuneration for a defined benefit pension scheme or in calculating mandatory employer contributions under a defined contribution benefit scheme.

7.2.12 *Source of shares and employee trust*

The Share Option Scheme allows the satisfaction of Options through the use of newly issued Ordinary Shares and Ordinary Shares acquired 'on market' either through an employee benefit trust or the holding of Ordinary Shares in treasury.

7.2.13 *Tax efficient share options*

Wherever possible the Share Option Scheme will be used to grant options which qualify as EMI options under the taxation legislation. These tax favoured options will enable the Company to minimise its employer's national insurance contributions liability on the gain which participants make on the exercise of their Options. The participants will also be able to enjoy taxation advantages.

There are certain qualifying conditions which must be satisfied by the Company and the participants for Options to have EMI status. Even where these conditions are met there are certain limits on the amount and timing of the grant of Options with EMI status. Where Options cannot be granted with EMI status they will be granted as Options with no taxation advantages. The Share Option Scheme allows the grant of both tax efficient EMI and 'unapproved' Options for maximum flexibility.

The Company may determine that in the case of both EMI and 'unapproved options', any employer's national insurance charges arising will be the responsibility of the employee.

7.2.14 *Amendments to the Share Option Scheme*

The Share Option Scheme may be amended at any time by the Remuneration Committee. However, no amendment can be made which would adversely affect the rights of existing participants without their consent.

7.3 ***BNS Telecom Group plc 2005 HM Revenue & Customs Approved SAYE Share Option Scheme***

7.3.1 *Employee Eligibility*

Generally, all UK resident and ordinarily resident employees and executive directors of a participating company (who in the case of directors, are contracted to work at least 25 hours per week for the group) are eligible to participate. The Grantor will have the discretion to set a minimum service requirement of up to 5 years before an employee or director may be eligible to participate in a particular offer under the SAYE Scheme.

7.3.2 *Shareholder Dilution*

The SAYE Scheme contains a limit on the number of new shares to be issued as a result of the exercise of options granted under the SAYE Scheme. This limit applies to options granted under the SAYE Scheme and options granted/awards made under all other employee share schemes operated by the Group. Options and awards which have lapsed or been renounced, and the replacement options granted to David Horrocks over the Company's shares but under the Old Share Option Scheme are disregarded. The reissue of treasury shares will be treated as a new issue of shares.

The directors will ensure that appropriate policies regarding the timing and amount of SAYE options granted exist in order to spread the potential issue of new shares over the life of the SAYE Scheme.

The rules of the SAYE scheme provide that no more than 10 per cent. of the issued ordinary share capital of the Company, from time to time, should be issued under all share incentive schemes operated by the Group in any rolling 10 year period.

Options over a maximum of 650,000 Ordinary Shares with an exercise price equal to 80 per cent. of the Placing Price are expected to be granted shortly before or on Admission pursuant to invitations issued under the SAYE Scheme on 1 November 2005. These options will ordinarily be exercisable between the third anniversary and tenth anniversary of the date of grant.

7.3.3 *Granting of Options*

On or after Admission, invitations to apply for the grant of options may only be made within the period of 42 days beginning on the day of Admission or within the period of 42 days beginning on the dealing day following the announcement of the Company's interim or final results, or, at other times if the Directors consider there are exceptional circumstances. Options may be granted either by the Board or trustees of an employee benefit trust ("the Grantor").

Options may only be granted during the period of 30 days beginning on the earliest of the dates used to determine the option exercise price (or if option applications are scaled down during the period of 42 days beginning on the earliest of such dates).

SAYE options will be personal to the participant and not transferable (other than on death when they can be exercised by the participant's personal representatives).

7.3.4 *Savings Contract*

An employee who accepts an invitation to participate in an issue of SAYE options will be required to enter into a savings contract for a period of three or five years under which the employee must save between £5 and £250 per month (or such other minimum or maximum amount determined by the Directors and permitted by legislation). The £250 limit is reduced by any other savings contract linked to this or any other savings related share option scheme. These contributions will be deducted from the employee's salary.

If the participant ceases to make contributions before the third or fifth anniversary of the commencement of the savings contract, the option will lapse, except in the case of a deferral of contributions for a period of up to six months.

7.3.5 *Exercise Price*

The option exercise price shall be determined by the Directors and will be not less than 80 per cent. of the market value of a share at the date of invitation (or, if higher and the Grantor has determined that the option exercise will be satisfied by the issue of shares directly to the participant, the nominal value of an Ordinary Share).

7.3.6 *Exercise of Options*

During the period of 6 months following the end of the savings contract, the participant may exercise his option to acquire, at the exercise price, ordinary shares up to the total value of his monthly savings contributions (plus any bonus or interest paid thereon where appropriate). Alternatively, the participant may withdraw his contributions and any bonus or interest without exercising the option.

7.3.7 *Termination of Employment*

If a participant ceases to be employed within the Group during the savings period his option will lapse except where cessation of employment is due to death, injury, disability, redundancy or retirement or as a result of the company or the part of the business by which the participant was employed ceasing to be a member or a part of the Group in which case the participant will be able to exercise his option within 6 months (or 12 months in the case of cessation of employment as a result of death) from the date of cessation of employment, but only to the extent of his total savings plus any interest or bonus accrued.

7.3.8 *Takeover, Reconstruction, Amalgamation and Winding Up*

In the event of a takeover, reconstruction, amalgamation or voluntary winding up of the Company during the savings period, participants may exercise options early and within a specified period to the extent of their total savings plus any interest or bonus accrued to the date of exercise.

7.3.9 *Variation of Share Capital*

Upon any variation in the share capital of the Company, whether by way of a capitalisation issue (other than a capitalisation issue in substitution for or as an alternative to a cash dividend), a rights issue, a bonus issue, a rights offer or any sub-division, consolidation or reduction in the Company's share capital, the exercise price and/or the number of shares comprised in an option and the description of the shares may be adjusted in such manner as the Directors determine to be fair and reasonable subject to the prior approval of HM Revenue & Customs. The Directors may seek the confirmation of the auditors that in their opinion any adjustment is fair and reasonable.

7.3.10 *Pensionability*

Gains made on the exercise of options are not taken into account when calculating pensionable remuneration for a defined benefit pension scheme or in calculating mandatory employer contributions under a defined contribution benefit scheme.

7.3.11 *Source of Shares*

The SAYE Scheme allows the satisfaction of options through the use of newly issued Ordinary Shares and Ordinary Shares acquired "on market" either through the medium of an employee benefit trust or the holding of Ordinary Shares in treasury.

7.3.12 *Amendments to the SAYE Scheme*

Following HM Revenue & Customs approval of the SAYE Scheme the Directors may, at any time, amend any provision of the SAYE Scheme. However:

- no amendment can be made which would adversely affect the rights of existing participants without their consent; and
- amendments to 'key features' (as defined in tax legislation) of the SAYE Scheme also require the approval of HM Revenue & Customs in order for the SAYE Scheme to retain its HM Revenue & Customs approved status.

8. Working Capital

The Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group is sufficient for its present requirements, that is for at least the twelve months from the date of Admission.

9. Legal and arbitration proceedings

Neither the Company nor any of its subsidiaries is, or has been, engaged in any governmental, legal or arbitration proceedings and, so far as the Company is aware, there are no such proceedings pending or threatened against the Company or any of its subsidiaries which are having or may have or have had during the twelve months preceding the date of this document a significant effect on the Group's financial position.

10. Taxation

10.1 ***General***

The following paragraphs include advice received by the Directors about the current taxation position of shareholders who are resident or ordinarily resident, and domiciled, in the UK for taxation purposes in respect of their holdings of Ordinary Shares, and who hold their Ordinary Shares as investments and who are the absolute beneficial owners of those shares. The statements below are intended only as a general guide and do not constitute advice to any shareholder on his or her personal tax position and may not apply to certain classes of investor (such as dealers, charities, trustees or pension providers) or investors who acquired their shareholding by reason of a directorship or employment. The comments are based on current legislation and published HM Revenue & Customs' practice.

Levels of taxation may change from time to time. Any investor who is in doubt as to his or her tax position, or who may be subject to tax in any other jurisdiction, should consult his or her professional adviser.

10.2 ***Taxation of Dividends***

There is no UK withholding tax on dividends.

A dividend paid to a non-corporate Shareholder is treated as being paid with a tax credit equal to one ninth of the net dividend. A dividend of £90 would therefore have an accompanying tax credit of £10. The gross dividend (ie the aggregate of the dividend and the related tax credit) will be included in calculating an individual Shareholder's total income and will be regarded as the top slice of the individual's income and therefore taxed accordingly. Individual Shareholders whose taxable income is within the lower or basic rate bands will be liable to income tax at 10 per cent. on the gross dividend. The tax credit will therefore satisfy their income tax liability on the dividend. Individual Shareholders who are liable to income tax at the higher rate will be charged to income tax at 32.5 per cent. on the gross dividend. The tax credit will offset their income tax liability in part leaving an additional income tax liability equal to 22.5 per cent. of the gross dividend. This upper rate of income tax applicable to dividends equates to an effective rate of income tax on the dividend actually received of 25 per cent. So, for example, a dividend of £90 will carry a tax credit of £10. To the extent that the gross dividend falls above the threshold for the higher rate of income tax, the income tax payable by the individual shareholder will be 32.5 per cent. of the aggregate of the dividend of £90 plus the tax credit of £10, ie £32.50. The tax credit of £10 will reduce the net charge to £22.50 (ie 25 per cent. of the cash dividend). There will be no repayment of the tax credit in any circumstances.

A UK corporate Shareholder receiving a dividend paid by the Company will not be taxable on the dividend but will also not be entitled to the repayment of any tax credit with respect to that dividend.

Non-UK resident Shareholders should consult their own tax advisers on the taxation of any dividends received.

10.3 ***Taxation of Chargeable Gains***

If a Shareholder disposes of all or any of the Ordinary Shares acquired in the Placing he or she may, depending on the Shareholder's particular circumstances, incur a liability to taxation on chargeable gains.

A UK individual Shareholder may be entitled to an annual exemption and taper relief, which would serve to reduce the chargeable gain.

A UK corporate Shareholder is not entitled to taper relief but is entitled to an indexation allowance on the acquisition cost of the Ordinary Shares, which would reduce the chargeable gain. The indexation allowance should generally be available in relation to the period from the date of acquisition until the date of disposal of the Ordinary Shares. The indexation allowance, in effect, increases the acquisition cost of the Ordinary Shares for the purposes of corporation tax on chargeable gains in line with increases in the retail prices index, but cannot be used to create or increase an allowable loss.

10.4 ***Stamp Duty and Stamp Duty Reserve Tax***

Generally, no stamp duty or stamp duty reserve tax ("SDRT") will be payable by cash subscribers on the issue to them of new Ordinary Shares pursuant to the Placing. If the Placing involves the transfer of existing Ordinary Shares to cash subscribers these transfers will attract 0.5 per cent. stamp duty or SDRT (as described below) but this cost will be borne by the existing shareholders.

Any subsequent transfer on sale of Ordinary Shares will generally give rise to a liability on the purchaser to ad valorem stamp duty, currently at a rate of 0.5 per cent. of the stampable consideration paid, rounded up to the nearest £5. An unconditional agreement to transfer Ordinary Shares will be subject to SDRT. This is payable, at the rate of 0.5 per cent., by reference to the consideration payable for the shares in money or moneys worth. However, when an instrument of transfer is executed and duly stamped before the expiry of a period of six years beginning with the date of that agreement, the SDRT liability will usually be extinguished.

There will be no stamp duty or SDRT on a transfer of Ordinary Shares into CREST where such a transfer is made for no consideration. A transfer of Ordinary Shares effected on a paperless basis through CREST will generally be subject to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable in money or moneys worth. CREST is obliged to collect SDRT on relevant transactions settled within the system.

Special rules apply to transactions with intermediaries and stock lending transactions.

There are special rules which can apply a 1.5 per cent. charge to SDRT or stamp duty when shares are issued or transferred to a Clearance System or Depositary Receipts service.

10.5 ***EIS Tax Relief***

The following information provides an outline only of the EIS tax reliefs. It is not an exhaustive summary of EIS and it is strongly recommended that potential investors obtain independent advice from a professional adviser to take into account the effect of the legislation in the context of their particular personal circumstances. The reliefs may be denied initially or clawed back if either the investor or the investee company do not meet various conditions for certain specified periods of time.

10.5.1 *EIS Relief*

EIS relief may be available where a qualifying company issues new shares. The purpose of issuing these shares (and any others issued at the same time) must be to raise money for a qualifying business activity. The EIS shares must be subscribed wholly in cash and be fully paid up at the date of issue. The shares must be held for at least three years after issue or if later three years after the company begins to trade. The EIS relief has four elements:

(a) *Income tax relief*

The individual's income tax liability for the year of the share issue is reduced by up to 20 per cent. of the amount subscribed. In effect, up to 20 per cent. of the cost of the investment is paid for by the HM Revenue & Customs.

The minimum investment which is eligible for relief is £500 per company. The maximum subscription on which an individual can claim income tax relief in any one tax year is £200,000. Husbands and wives are taxed independently of each other and the £200,000 limit is available to each of them.

If the Company does not meet all the relevant conditions for three years from the issue of shares or commencement of trade if later the income tax relief of the EIS investors would be clawed back.

(b) *CGT exemption*

If the EIS investor does not dispose of his or her shares for at least three years after the shares were issued or, if later, three years after the company begins to carry on a qualifying trade and the EIS income tax relief has not been withdrawn in the meantime any capital gains realised on the disposal of the shares will be tax free.

(c) *Loss relief*

Tax relief is available where there is a loss on a disposal at any time of shares on which EIS income tax relief (see (a) above) or CGT deferral (see (d) below) has been given. Subject to the qualifying company not ceasing to be a trading company for the purposes of Section 574 ICTA 1988 prior to the disposal, the amount of the loss (after taking account of any income tax relief initially obtained) can be set against the individual's gains or taxable income in the tax year in which disposal occurs or the previous tax year.

(d) *CGT Deferral relief*

To the extent to which a UK resident investor (including individuals and certain trustees) subscribes in cash for qualifying shares, he can claim to defer tax on all or part of a chargeable gain arising on the disposal of any asset. Although there is a limit of £200,000 for income tax relief and the exemption from CGT (see (a) and (b) above), there is no limit on the amount of gain that can be deferred.

The subscription must be made within one year before or three years after the date of the disposal which gives rise to the gain, or the date when a previously deferred gain crystallises. The gain is deferred until there is a chargeable event such as a disposal of the shares or an earlier breach of the EIS rules before the end of the three year period, such as a receipt of value from the company or a connected person, or the company fails to meet is qualifying conditions.

If the proceeds of the Share Issue are not employed for a qualifying business activity within the Relevant Time Limits, any gains deferred would come back into charge.

10.5.2 *"Qualifying Investor" for EIS Income Tax Relief*

EIS income tax relief applies only to individuals and not, for example, companies or trusts.

The individual need not be resident and ordinarily resident in the UK for tax purposes when the shares are issued but he will, of course, need to be liable to UK income tax.

There are certain restrictions affecting the EIS investor which apply throughout the investor's "five-year period". The investor's five-year period is from two years before until three years after the EIS shares are issued, or if later three years after the company begins to carry on a qualifying trade.

The main condition is that the EIS investor must not be "connected" with the company during the "five-year period" referred to above. The EIS legislation specifies a number of ways in which the investor can become connected with the company, for example:

(a) If his and his "associates'" interest in the company exceeds 30 per cent. (and this includes share capital, loan capital, voting rights or entitlement to assets on a winding up).

(b) If he or any of his "associates" is an employee or partner of the company.

(c) If he or any of his "associates" is a director of a company (although under the EIS, an investor who has not previously been connected with the company or employed in the business can take an active role in its management through becoming a paid director who receives only reasonable remuneration following his subscription for shares).

There are various anti-avoidance measures designed to prevent abuse of the EIS. The rules are very complex and are therefore not set out here. In particular, there are measures to deny relief if the investor or his associates receive certain payments or value from the company or any person connected with it during the period commencing one year before the issue of shares and ending three years after the issue or three years from the commencement if later. Other anti-avoidance measures relate to arrangements for a change of control of the company. This is not an exhaustive list of all the anti-avoidance rules, and it is essential that advice is taken at the outset and also before any transactions or arrangements are entered into in the relevant period.

10.5.3 *Qualifying Company*

There are various conditions which the company must meet throughout the period commencing with the issue of shares ending three years after the issue of the shares or three years from the commencement of trade if later.

The company must:

(a) exist for the purposes of carrying on one or more qualifying trades; or

(b) be the holding company of a trading group.

Any activities, apart from the qualifying trading activities, must not be significant.

Certain activities are excluded and the trade of the company or group must not include these activities (to any substantial extent) during the company's three-year qualifying period. What constitutes "substantial" is not defined in the legislation but HM Revenue & Customs interprets this as 20 per cent.

There are complex rules governing the identity of the company carrying on the qualifying activity. There are also conditions which must be met in relation to subsidiaries of EIS companies. The company must not be under the control of another company, or control a company which is not a qualifying subsidiary.

The gross assets of the EIS company must not exceed £15 million before the relevant share issue and £16 million afterwards. At least 80 per cent. of the money raised by the EIS company must be used for the purpose of a "qualifying business activity" carried on wholly or mainly in the UK within 12 months of the shares being issued or, where this activity constitutes preparing to carry on a qualifying trade, 12 months after the date trading starts. The remainder of the money raised must be employed within 2 years after the date the shares were issued or the commencement of the trade, if later.

10.5.4 *Eligible Shares*

EIS relief is available where "eligible shares" are issued in order to raise money for a "qualifying business activity". Eligible shares are new ordinary shares with no present or future preferential right to income or to assets in a winding up, and with no present or future right to be redeemed. If eligible shares become ineligible during the investor's holding period, all EIS reliefs will be lost.

All of the company's shares qualifying for EIS relief must be fully paid up in cash throughout the company's "relevant period". The company's relevant period starts on the date the EIS shares are issued. It ends either three years after that date or, if later, three years after the company starts to trade.

A company can become listed within its three year relevant period without loss of EIS reliefs. The company only need be unquoted (which includes trading on AIM) at the time the EIS shares are issued provided that no arrangements exist at that time for the company to cease to be an unquoted company.

10.5.5 *Claims*

The company completes and submits form EIS1 to HM Revenue & Customs to the specialist section which deals with EIS. Once HM Revenue & Customs is satisfied that the claim can be accepted it issues a form EIS2 to the company. The EIS2 authorises the company to issue an EIS3 certificate to the EIS investors which they then use to claim relief. The qualifying investor completes a claim on the back of the form EIS3 and sends this to his own Inspector of Taxes who will then give effect to the income tax relief either by adjusting the investor's PAYE code, making a tax repayment or agreeing to offset the relief against outstanding tax liabilities, as appropriate.

The form EIS1 may be submitted by a Company to HM Revenue & Customs once it has completed four months trading. The form must, however, be submitted no later than two years after the end of the tax year in which the shares were issued or, if the company's four months trading ended after the end of that tax year, no later than two years after the end of that period.

The claim for tax reliefs must be made by an investor no later than five years after 31 January following the end of the tax year in which the shares are issued.

10.6 ***VCT Tax Relief***

Any investor wishing to take advantage of VCT tax relief should consult a financial adviser before investing.

11. Material Contracts

Set out below is a summary of each material contract entered into by any member of the Group, other than those entered into in the ordinary course of business, to which the issuer or any member of the Group is a party, within the two years immediately preceding the date of this document:

11.1 Placing Agreement

A placing agreement dated 22 November 2005 between (1) the Company, (2) the Directors, (3) the Selling Shareholders and (4) KBC Peel Hunt, pursuant to which KBC Peel Hunt has agreed to use its reasonable endeavours to procure placees to subscribe and/or acquire the Placing Shares at the Placing Price. The agreement is conditional, *inter alia*, upon Admission taking place on or before 25 November 2005 or such later date as KBC Peel Hunt and the Company may agree but in any event not later than 9 December 2005. The agreement provides for the Company to pay all expenses of and incidental to the Placing and the application for Admission, including the fees and costs of other professional advisers, all costs relating to the Placing including printing, advertising and distribution charges, the fees of the Registrars and the fees payable to London Stock Exchange.

The agreement contains warranties and indemnities given by the Company, the Directors and the Selling Shareholders in favour of KBC Peel Hunt with respect to the accuracy of the information in this document and as to other matters relating to the Group (and in the case of the Selling Shareholders, their shares). The liability of the Directors and the Selling Shareholders are limited in time and quantum.

Subject to certain limited exceptions (including transfers to family trusts and connected parties or acceptances of a take-over), the Directors and Selling Shareholders have each agreed not to dispose of any interest in their ordinary shares in the Company for the period expiring 18 months after Admission and only to dispose of their shares through the broker to the Company.

KBC Peel Hunt may terminate the placing agreement in specified circumstances prior to Admission, principally in the event of a material breach of the placing agreement or of any of the warranties contained in it or where any event or omission relating to the Group is, or will be in the opinion of KBC Peel Hunt, materially prejudicial to the successful outcome of the Placing.

11.2 A share sale agreement dated 26 August 2005 between BNS, Jason Sarria-Solis, Stephen James Dale and Alexander Nima Nowsouzi-Esfaham pursuant to which BNS acquired 78 per cent. of the issued share capital of Modus Telecom Limited for the aggregate consideration of £50,001 together with £29,500 towards transaction costs relating to the sellers. The remaining 22 per cent. of the issued share capital was retained by the vendor shareholders, in the proportions of 20 per cent., 1 per cent. and 1 per cent. respectively.

11.3 A share sale agreement dated 7 October 2005 between the Company and the Directors, Richard Horton, Joanne Moat, Stephen Sanderson, Davina Outhwaite and Neil Scott pursuant to which the Company agreed to acquire from the shareholders of BNS the entire issued share capital of BNS in exchange for the issue to those shareholders of an aggregate of 43,312,490 Ordinary Shares in the capital of the Company and the payment up of the existing ten Ordinary Shares held by Garry Moat.

11.4 Facility agreements dated 24 October 2005 between BNS and Barclays Bank PLC (“the Bank”), for a £1 million revolving credit facility and a £2 million treasury loan.

The revolving credit facility is to be repaid on the second anniversary of the loan. The Bank is relying on existing security. The interest rate is to be charged at LIBOR (London Interbank Offered Rate) plus a margin of 1.5 per cent. per annum until 1 December 2005. Thereafter the margin will be 2.025 per cent. or 1.50 per cent. if the shares are traded on a recognised investment exchange and the net proceeds are more than £2 million but less than £5 million. If the net proceeds exceed £5 million the margin will reduce to 1.40 per cent. A one off arrangement fee is payable of £2,500. BNS is to pay all legal fees of the Bank and any other fees incurred and a non-utilisation fee of one half of the applicable interest margin on the undrawn amount of the facility. The agreement contains simple conditions precedent. There are information covenants and the usual warranties from the Company. There are certain financial covenants including that gross borrowings are not to exceed 150 per cent. of EBITDA (earnings before interest, taxation, depreciation and amortisation), debts charged to the bank as security must cover the drawn amount of the facility by 2:1 and net assets are to be greater than £500,000 plus the net proceeds of flotation. Covenants to be tested on a bi-annual basis.

The purpose of the treasury loan is to fund the development of additional office space and land adjacent to Telecom House, Low Prudhoe and to refinance existing debts. This loan is for a term of five years from the drawdown date with repayments made on a quarterly basis with a bullet repayment after 60 months. Security will be the existing security and a legal charge over certain property at Low Prudhoe. Interest will be charged at LIBOR plus a margin of 1.50 per cent. until 1 December 2005. Thereafter the margin will be 2.125 per cent. or 1.50 per cent. if the shares are traded on a recognised investment exchange and the net proceeds are more than £2 million but less than £5 million. If the net proceeds of a listing exceed £5 million the margin will reduce to 1.40 per cent. There is a one off arrangement fee payable of £10,000 and a prepayment fee of 1 per cent. of the amount prepaid. Conditions precedent include the Bank being satisfied with planning consents for the new offices and that after completion the loan to value ratio will not exceed 70 per cent. Information covenants and warranties are standard. Financial covenants are as detailed above in relation to the revolving credit facility plus the drawn down amount must not exceed 70 per cent. of the value of the properties charged to the Bank and total operating profit of BNS must exceed three times gross financing costs.

11.5 Agreement dated 29 March 2005 between BNS and Evolution Capital Resources Limited.

Evolution Capital Resources Limited ("Evolution Capital") is engaged to assist BNS in finding successful investment opportunities within a range of £1 million and £3 million in internet service provider and telecommunications businesses. Evolution Capital acts as an intermediary but has no power to either bind or obligate BNS in any way. The arrangement is for a term of ten months and thereafter continues on a rolling basis until terminated by 60 days notice from either party. Evolution Capital's fees can be paid by way of a monthly retainer of £2,500 per month plus VAT for the first six months and a reduced fee of £1,000 plus VAT thereafter, or by way of an annual retainer of £12,500 plus VAT. Evolution Capital are entitled to a commission of 4.5 per cent. of the total consideration paid for any investment. As at the date of this document, the Group had paid Evolution Capital approximately £62,000 under this agreement.

12. Other information

12.1 There has been no significant change in the trading or financial position of the Company since 31 July 2005, the date to which the latest audited financial statements of BNS were made up.

12.2 Save as disclosed in this document, no person (excluding professional advisers named in this document and trade suppliers) has (i) received directly or indirectly from the Company within the 12 months preceding the date of this document or (ii) entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission any of the following:

12.2.1 fees totalling £10,000 or more; or

12.2.2 securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or

12.2.3 any other benefit to a value of £10,000 or more on the date of Admission.

12.3 The accounting reference date of the Company is 31 July.

12.4 The total costs and expenses in relation to Admission and the Placing (including registration and London Stock Exchange fees, printing, advertising and distribution costs, legal, accounting, corporate finance and public relations fees and expenses) are payable by the Company and (assuming subscription in full) are estimated to amount to approximately £0.8 million, excluding value added tax.

12.5 To the extent that information in this document is sourced from a third party, it has been accurately reproduced and, so far as the Company is aware and able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

12.6 The Directors are not aware of any arrangements under which future dividends are waived or agreed to be waived.

12.7 Monies received from applicants pursuant to the Placing will be held in accordance with the terms of the application procedures issued by KBC Peel Hunt until such time as the Placing becomes unconditional in all respects. If the Placing does not become unconditional in all respects by 25 November 2005 (or such later date as KBC Peel Hunt and the Company may agree), application monies will be returned to applicants as soon as practicable at their own risk and without interest prior to delivery of the Ordinary Shares. The period within which the Placing applications may be accepted pursuant to the Placing is set out in the Placing Agreement and in the placing letters sent to placees.

13. Availability of this document

Copies of this document will be available to the public free of charge from the registered office of the Company, at Telecom House, Princess Way, Low Prudhoe, Northumberland, NE42 6NJ and from the offices of KBC Peel Hunt, at 4th Floor, 111 Old Broad Street, London EC2N 1PH, during normal office hours, Saturdays and Sundays excepted, from the date of this document until the date which is one month following Admission.

22 November 2005