

**BNS Telecom Group PLC**  
Annual report and accounts 2006



BNS Telecom Group is one of the UK's leading providers of telecoms services to the UK SME and corporate market.

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# Highlights

- Group turnover for the year of £25.80 million, an increase of 30.6 per cent. over 2005
- First time contribution of £5.43 million from Network Services Division
- Eight new joint marketing relationships established
- The customer base has grown by 6.6 per cent. to 6,250 (2005: 5,865) customers at 31 July 2006 whilst average monthly churn in the year reduced by 27 per cent. to 1.6 per cent. (2005: 2.2 per cent.)
- Four businesses were acquired during the year and have been fully integrated into the new Network Services Division headed by Mark Stewart who joined the Group board on 7 August 2006
- The Board is proposing a maiden dividend of 0.5 pence per share

# Chairman's statement

## Introduction

BNS Telecom Group plc (the "Group", "BNS") was admitted to trading on AIM on 25 November 2005 and the Group raised net proceeds of £2.73 million. The purpose of the placing was primarily to strengthen the Group's balance sheet, to part fund new and more efficient office premises for BNS and to provide finance for increased sales and marketing initiatives and acquisitions.

## Strategic overview

The Board continues to pursue the strategy of growing the business organically by increasing the number of third party joint marketing relationships to increase the customer base whilst acquiring new products and services to sell both to the existing customer base and the wider telecommunications market place.

The Group was organised into two distinct divisions in the fourth quarter. The Business Reseller Division comprises our direct selling operations, contracting directly with SME and corporate customers and managing the white label direct marketing relationships.

The Network Services Division has been formed by the integration of the four businesses acquired during the year. This Division generates income from international traffic management and is developing bespoke VoIP services and other products for sale through our Business Reseller Division.

## Financial review

### Profit and loss account

As has already been reported at the interim stage, our new customer acquisition performance in the second quarter of the year was disappointing, particularly sales of mobiles and telephone systems hardware, and consequently results for the first half year were disappointing. This led the Board to restructure the Group's direct sales team. In particular the Board has restricted the size of the Business Reseller Division sales team to a smaller team of salesmen than envisaged in November 2005. This has resulted in a significant improvement in profitability in the second half of the year.

Group turnover for the year of £25.80 million, an increase of 30.6 per cent. over 2005, grew as a result of a 3.1 per cent. increase in sales in the Business Reseller Division and a first time contribution of £5.43 million from Network Services Division. Sales in the Business Reseller Division in the six months to 31 July 2006 grew by 8.0 per cent. over the second half of 2005 and by 7.2 per cent. compared with the six months to 31 January 2006.

Underlying operating profit for the year before goodwill amortisation and start up costs of our associate, UKTelecoms, amounted to £0.79 million against £1.35 million in 2005. From the total of £0.79 million, the Business Reseller Division generated £0.74 million and £0.05 million was generated by the Network Services Division. Operating profit in the Business Reseller Division recovered in the second half of the year and reached £0.56 million, a 58 per cent. increase against the second half of 2005 and a material recovery from operating profit of £0.12 million at the interim stage of 2006.

“The second half of the year has been encouraging with the main Business Reseller Division achieving much improved results over the first half year. In addition, the companies acquired have been merged into the Network Services Division and we look forward to a growing contribution from the Division in the years ahead.”

Net interest payable in the year amounted to £0.07 million (2005: £0.12 million), resulting in a pre tax profit for the year of £0.65 million against £1.23 million in 2005.

Earnings per share amounted to 0.86p (2005: 1.95p). Fully diluted earnings per share amounted to 0.82p (2005: 1.94p).

#### Dividend

The Board is proposing a maiden dividend of 0.5 pence per share payable on 27 December 2006 to shareholders on the register on 24 November 2006. The Board intend to develop a progressive dividend policy in the coming years.

#### Cash resources

Having raised net proceeds of £2.73 million at flotation, the Group has acquired four businesses at a cash cost of £0.94 million and has invested £2.68 million in tangible assets and £0.19 million in intangible assets. Of the £2.68 million invested in tangible assets, £1.77 million relates to the new Head Office Building at Prudhoe. This has been occupied since September 2006.

At the 31 July 2006, the Group had net debt of £0.73 million (2005: £1.10 million), giving rise to equity gearing of 22.2 per cent.

#### Joint marketing relationships

In 2006 eight new partners were added. It would be fair to say some of the new relationships have not been as fast in developing as the Board would have wished and this has in part been the reason for restricting the number of salesmen in the field. Nonetheless joint marketing relationships continue to be a major strength of the Business Reseller Division's offering with approximately 72 per cent. (2005: 70 per cent.) of the Business Reseller Division's customers having been sourced through joint marketing relationships.

Our 45 per cent. owned associate company, UKTelecoms, provides fixed and mobile services to retail customers. UKTelecoms will also be the retail focus for the launch of new products from the Network Services Division.

#### Acquisitions and Board appointment

The four businesses acquired during the year have now been fully integrated into the new Network Services Division headed by Mark Stewart who joined the Group Board on 7 August 2006. The Network Services Division has developed one of the UK's largest VoIP networks providing wholesale international voice and data carrier services for both fixed and mobile customers.

#### Employees

The Directors recognise the efforts of our employees in the improved performance of the business over recent months and thank all members of staff for their diligence and hard work.

#### Graham Wilson

Chairman  
8 November 2006

# Operating and financial review

## Overview

BNS Telecom Group is one of the leading providers of telecoms services to the SME and Corporate markets in the UK.

We provide our customers with fixed line access and calls, together with hardware supply and maintenance. This year, in response to rapid developments in the business telecoms market, we have added mobile communications and VoIP services to our product portfolio, broadened our ability to service our customers and provided for the emergence of demand in the SME sector for IP telephony.

In line with our strategy we have acquired new products and services through four acquisitions completed during the year:

- **Modus Telecom** – 78 per cent. was acquired in August 2005. Modus operates voice and data switches together with a VoIP gateway and provides the Group with international traffic carrier capabilities.
- **EMC Partnership** – 75 per cent. was acquired in January 2006. EMC is developing white label, prepay mobile phone services including international calling, targeted content and international money transfer services, for distribution through existing Group sales channels.
- **BNS Mobile** (formerly Telecom Asia) – 100 per cent. was acquired in January 2006. BNS Mobile operates a London based Short Message System Centre (SMSC) that enables BNS to offer a range of mobile messaging services. In addition, BNS Mobile owns and operates a VoIP based switching platform which provides carrier grade international voice telecommunications services.
- **Billing Online** – 100 per cent. was acquired in March 2006. Billing Online is a billing software and VoIP application development house which will allow us to improve the flexibility of the Group's VoIP services.

We have now structured our business into two distinct divisions. The Business Reseller Division comprises our direct selling operations, contracting directly with SME and corporate customers and manages the white label joint marketing relationships. The four acquisitions have

been integrated to form a new division, Network Services Division, which generates revenue from international wholesale traffic management. This division is developing bespoke VoIP services and other products for sale to customers through our Business Reseller Division.

	2005	2006	% total
<b>Turnover (£'m)</b>			
Business Reseller	19.76	<b>20.37</b>	79.0%
Network Services	–	<b>5.43</b>	21.0%
	19.76	<b>25.80</b>	
<b>Gross profit (£'m)</b>			
Business Reseller	6.98	<b>7.57</b>	90.3%
Network Services	–	<b>0.81</b>	9.7%
	6.98	<b>8.38</b>	
<b>Gross Margin (%)</b>			
Business Reseller	35.3	<b>37.2</b>	
Network Services	–	<b>14.9</b>	

“The Directors are pleased to propose a maiden dividend of 0.5p per share, payable on 27 December 2006 as an indication of their quiet confidence in the way the Group is developing.”

#### **Business Reseller Division**

The Business Reseller Division offers a “one-stop shop” telecoms service to the SME and corporate markets in the UK. Through our direct sales channel we contract directly with the end user for fixed line access and calls, hardware supply, hardware maintenance, mobile telecoms access and calls and VoIP services. Our services are offered to customers as packages which can be tailored to an individual business’ needs.

#### **Joint marketing relationships**

The Business Reseller Division uses a number of marketing approaches including white label branding from our joint marketing partners to approach potential customers. Approximately 72 per cent. of our customers have been sourced through joint marketing brands (2005: 70 per cent.). All customers contract directly with BNS, allowing BNS to manage the targeting of new business and the ongoing customer relationships.

Our strategy is to broaden our geographical base through regional and national partner brands. New partners launched in the year comprise South East Water Telecom, Norfolk Chamber Telecom, Isle of Wight Chamber Telecom, all based in the South of England, Yorkshire Tourist Board Telecom, based in the North of England, and national partners UKTelecoms, Utility Aid Telecoms and Charity Buying Group Telecom.

In order to support our new Southern based partners, we created a South Region sales team in the second quarter of the year. Sales order performance from some of the new brands in the early part of the year was lower than expected and we moved quickly to restrict the number of sales executives. This has held back our growth in 2006. We will continue to monitor the development of our new partners into 2007 and we will manage our sales force as appropriate.

In the second half of the year we launched a brand to the retail sector in the UK with an associate company, UKTelecoms, in which we hold a 45 per cent. stake. UKTelecoms provides fixed and mobile services to customers, managed through the Business Reseller Division, and many of the new products within the Network Services Division will be launched to the retail sector through UKTelecoms.

#### **Operational performance**

The customer base has grown by 6.6 per cent. to 6,250 (2005: 5,865) customers at 31 July 2006. The Group has continued to reduce customer churn, through both broadening the range of products taken by customers and improving our customer services systems. Average monthly churn in the year reduced by 27 per cent. to 1.6 per cent. (2005: 2.2 per cent.). Over 90 per cent. of our customer base takes more than one service from the Group. ARPU, average revenue per customer per month, has fallen by 4.1 per cent. over the year to £280 (2005: £292), largely reflecting the significant price competition in the telecoms market.

The Business Reseller Division is split into four revenue streams:

Fixed Line			Calls Traffic (CPS)		
	2005	2006		2005	2006
Turnover (£'m)	7.67	<b>8.30</b>	Turnover (£'m)	9.87	<b>9.36</b>
Lines Volume	42,180	<b>43,908</b>			

Fixed lines connected by the Group increased 4.1 per cent. to 43,908 at 31 July 2006, and turnover increased by 8.2 per cent. to £8.30 million.

This revenue stream provides wholesale line rental (WLR) to customers at a discount to BT Retail standard pricing. Discounts are based on contract terms which are for one, three or five year periods. At 31 July 2006 38.5 per cent. (2005: 29.4 per cent.) of customers were committed to one year contracts, 12.5 per cent. (2005: 10.4 per cent.) of customers were committed to three year contracts and 49.0 per cent. (2005: 60.2 per cent.) were committed to five year contracts. As expected, customers are moving towards shorter contract terms, reflecting the competitive fixed line market.

The Group continues to resell broadband where requested by customers, but changes to the broadband market in 2006 have made significant investment into the development of the broadband package unattractive.

The revenue stream provides carrier pre select (CPS) calls traffic over fixed lines from a range of suppliers including BT and Thus. Calls traffic revenues reduced by 5.1 per cent. during the year, primarily as a result of continuing pricing erosion in a very competitive market. The Group has continued to negotiate with suppliers to improve call margins during the year. Average selling prices during 2006 have reduced by 6.2 per cent. compared to 2005.

New CPS customers are now contracted for one, three and five year terms, but a number of customers remain on legacy 30 day notice contracts. At 31 July 2006, 53.8 per cent. (2005: 65.2 per cent.) of customers were on contracts with a 30 day notice period, 31.3 per cent. (2005: 22.9 per cent.) of customers were on one year contracts, 8.2 per cent. (2005: 5.6 per cent.) of customers were on three year contracts and 6.5 per cent. (2005: 6.3 per cent.) were on five year contracts.

### Hardware supply and maintenance

	2005	2006
Turnover (£'m)	2.22	<b>2.28</b>

The revenue stream supplies and maintains equipment from a number of suppliers including LG and Nortel. Following disappointing sales performance in the first half of 2006 the unit relaunched the hardware supply and maintenance sales effort and the Group achieved full year growth in this revenue stream of 2.2 per cent. compared with 2005. The improved performance in the second half of 2006 generated better margins against 2005.

As at 31 July 2006 2,251 customers (2005: 2,041) had maintenance contracts with the Business Reseller Division.

### Mobile

	2005	2006
Turnover (£'m)	–	<b>0.43</b>
Subscribers	–	<b>1,403</b>

The Group contracted with Vodafone in July 2005 to supply mobile services to SME and Corporate users over the Vodafone network, including voice and data services and accessories. Initial uptake in the first half of the year was slower than expected but changes to the mobile offer have generated significant additional subscribers in the second half. The Group has connected 1,403 subscribers in the year.

Mobile customers are contracted on one, two and three year terms, with 65.9 per cent. on one year, 32.2 per cent. on two year and 1.8 per cent. on three year terms.

In June 2006 the Group renewed a two year business reseller agreement with Vodafone. This, together with improvements in the mobile sales management team, will assist the Group in improving mobile services penetration of the existing customer base.

### Network Services Division

	2005	2006
Turnover (£'m)	–	<b>5.43</b>
Gross profit (£'m)	–	<b>0.81</b>
Gross margin (%)	–	<b>14.9%</b>

The Network Services Division comprises three revenue streams:

- International Telecommunications Services
- Card Services
- Mobile Services

These businesses have now been integrated and consolidated under a unified management team and operational structure and forms the Network Services Division. Operations are now centred on two locations with the main office and switching facilities located in the City of London and a satellite office for billing and development in Manchester. Additional switch sites are located in Dublin and Copenhagen.

### International Telecommunications Services

The international telecommunications services unit uses a VoIP technology switch platform to trade voice calls for termination throughout the world.

### Card Services

Card services provide international card marketing and management services for a range of calling card distributors based in the UK and in Europe. Calling cards provide consumers with low cost international telephone calls. Bespoke billing and switch management software allows the Group and its customers to manage card products and call traffic from a routing and quality perspective, as well as providing real time management information to allow the efficient financial management of card services.

In addition the card services business hosts branded calling cards services for Booker plc through our associate company, UKTelecoms.

### Mobile Services

The mobile services business line provides a range of mobile messaging solutions and mobile content. These services are hosted on the Group's SMSC (Short Message System Centre) in London. The SMSC is connected to a range of international mobile operators allowing the Group to send and receive mobile SMS, MMS (Multi Media Services) and mobile video clips worldwide.

# Actions taken in the second half of 2006 have improved sales performance on a lower cost base. The Group generated EBITDA of £1.06 million in the second half of 2006 compared with £0.53 million in the first half.

Mobile messaging solutions include:

- the SMS Marketing Console and easy to use web based software tool that allows the broadcast of SMS messages from a desktop;
- the international text card, a new innovative messaging product that allows consumers to send international SMS messages worldwide at very competitive rates;
- the Premium Rates SMS suite of services which allows new media marketing companies to run marketing campaigns, competitions, perform "E"Wallet functions and to download mobile content; and
- the mobile content suite is controlled by a management and billing software that allows consumers to buy and download ringtones, logos and wallpapers direct to their mobile phones.

## Product development

The international telecommunications market is dominated by rapid advances in VoIP, mobile and wireless technologies.

BNS aims to use the best of these technologies to develop customer solutions that are simple to use, efficient and add value to our customers' businesses. Network Services has installed and commissioned a new state of the art VoIP switch platform that supports a new SME focussed VoIP product which will be introduced to the SME and corporate market by the Business Reseller Division.

By offering the new VoIP service with a familiar pricing model potential business customers are able to identify easily the cost benefits from using this new, feature rich, service.

The Group continues to develop new media marketing channels to market its mobile services portfolio. In addition, the Group continues to develop bespoke mobile software in house to enhance the mobile functions and features offered by its products.

## Group operating results

Group turnover increased by 30.6 per cent. to £25.80 million (2005: £19.76 million), primarily due to the impact of the acquisitions in this year. Turnover of the underlying business for the full year, excluding acquisitions, grew by 3.1 per cent.. Turnover in the second half of the year grew by 8.0 per cent. compared with second half 2005, and by 7.2 per cent. compared with first half 2006.

Investment in Group infrastructure during 2005 and first half of 2006 increased the Group's cost base. This, combined with underperformance by our sales teams in the first half of 2006, had a detrimental effect on Group profitability resulting in a 12.6 per cent. reduction in EBITDA for the year to £1.59 million (2005: £1.82 million). Actions taken in the second half of 2006 have improved sales performance on a lower cost base. The Group generated EBITDA of £1.06 million in the second half of 2006 compared with £0.53 million in the first half.

Underlying operating profit before goodwill amortisation was £0.79 million (2005: £1.35 million), and before start up costs of our associate, UKTelecoms. Pre-tax profits for the Group was £0.65 million (2005: £1.23 million).

### Tax

The effective rate of tax for the year was 33.6 per cent. (2005: 31.3 per cent.).

### Earnings per share and dividends

Earnings per share amounted to 0.86p (2005: 1.95p). Fully diluted earnings per share amounted to 0.82p (2005: 1.94p).

The Board is recommending a dividend for 2006 of 0.5p. Dividend cover for 2006 is 1.6 times.

### Acquisitions

On 26 August 2005 the Group acquired 78 per cent. of Modus Telecom Limited for a total cash consideration of £0.10 million, plus the assumption of net liabilities of £0.47 million.

On 9 January 2006 the Group acquired 75 per cent. of EMC Partnership Limited for a total cash consideration of £0.11 million. The Group acquired the entire share capital of BNS Mobile Limited (formerly Telecom Asia Limited) on 25 January 2006 for a total consideration of £0.48 million, plus the assumption of net liabilities of £0.02 million. This was satisfied by £0.25 million in cash and £0.2 million in shares.

On 16 March 2006 the Group acquired Billing Online Limited and its subsidiaries for a total cash consideration of £0.48 million, plus the assumption of net liabilities of £0.56 million.

### Capital expenditure

The Group invested £2.93 million in tangible fixed assets during the year including £0.25 million on motor vehicles acquired on hire purchase contracts. Of this total £1.77 million was invested in a new head office building which was in the course of construction as at 31 July 2006. Total spend on the building is expected to be £2.60 million. The new building will replace temporary office accommodation which has been on site at head office since December 2004. An additional £0.54 million was invested in VoIP switching capacity which enhances that equipment purchased with the corporate acquisitions completed this year.

### Cash flow and banking facilities

The Group generated cash from operating activities for the year of £0.61 million (2005: £3.29 million). The stronger performance in the second half saw cash generation of £0.87 million.

Net cash raised from the Group's placing at the same time as its admission to AIM amounted to £2.73 million. The proceeds of the placing were used to fund acquisitions and ongoing expansion of the business.

At 31 July 2006 the Group had drawn down a total of £2.38 million from an on demand bank facility of £3.50 million. Of this amount, £1.77 million related to expenditure on the new head office. The Board is at a well advanced stage in agreeing a long term financial arrangement for the project.

At 31 July 2006 the Group had net debt of £0.73 million (2005: £1.10 million), including the £2.38 million referred to above.

# Directors

## **Graham Wilson**

### **Chairman and Non-executive Director**

In 1989 Graham Wilson led the £7 million management buy-out of 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 for £39 million 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. Parkdean Holidays plc was taken private by Alchemy Partners in April 2005 at an enterprise value of £213m. Graham then left the company at that time. Graham is also non-executive chairman of Amber Travel Holdings Limited, 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**

### **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**

### **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.

## **Mark Stewart**

### **Commercial Director**

Mark Stewart joined BNS as Commercial Director in August 2006. Mark has held various director and senior management positions at Cable & Wireless, BT, Hong Kong Telecom, Storm Telecom and, most recently, BNS Mobile Limited (formerly Telecom Asia Limited). His career in new business development and commercial management in telecoms has spanned over 20 years.

## **Barry Moat**

### **Non-executive Director**

Barry Moat, founder and former chief executive of Premier Direct Group plc, joined BNS in October 2004. Barry sold his interests in Premier Direct Group plc in November 2005 and at which point he retired from the business.

# Directors' report

The Directors present their report and audited Group financial statements for the year ended 31 July 2006.

## Principal activity

The Group's principal activity continued to be that of supply and maintenance of telecommunication services and systems, which represents the principal activity of BNS Telecom Limited.

## Results and dividends

The Group profit for the year, after taxation, amounted to £411,000 (2005: £846,000). The Directors recommend the payment of a dividend of 0.5p per share (2005: £Nil).

## Review of the business and future developments

The Company was incorporated as BNS Telecom Group Limited on 1 August 2005. On 7 October 2005 the Company changed its name to BNS Telecom Group plc and the Company acquired the entire share capital of BNS Telecom Limited in a share for share exchange. BNS Telecom Group plc was admitted to the Alternative Investment Market on 25 November 2005.

A review of the business of the Group during the year and likely future developments together with a description of the principal risks and uncertainties facing the Group is presented in the Chairman's Statement on pages 2 and 3 and in the Operating and Financial Review on pages 4 to 10 with these financial statements. A description of the Group's funding and risk management policies can be found in note 18.

## Political and charitable donations

The Group made no political donations and made donations of £4,000 (2005: £Nil) to various charities in the year. The charitable donations were paid to various local and national charities including The Rainbow Trust and Allendale Cricket Club.

## Directors and their interests

The Directors at 31 July 2006 and their interests in the share capital of the Group were as follows:

	At 31 July 2006 10p ordinary shares	At date of appointment 10p ordinary shares
G G Moat *	29,921,217	–
D J Horrocks *	338,250	–
R G Wilson *	1,225,075	–
B C Moat *	1,224,550	–

\*appointed 7 October 2005

At the date of appointment the Directors held ordinary shares of £1 each in BNS Telecom Limited as follows:

G G Moat	67,885
D J Horrocks	590
R G Wilson	2,063
B C Moat	2,062

These shares were exchanged for ordinary shares in BNS Telecom Group plc on 7 October 2005 on the basis of 525 shares for each £1 ordinary share in BNS Telecom Limited.

M J Stewart was appointed to the Board on 7 August 2006. At the date of appointment he had an interest in 328,947 10p ordinary shares.

The Directors' interests in options to purchase share capital of the Company are disclosed in the Remuneration Report.

#### Major interests in shares

At 19 October 2006, the Company had been notified of the following shareholdings representing 3% or more of the Company's ordinary share capital:

	Number of shares held	% of issued share capital
G G Moat	29,921,217	59.70
Man Financial Limited	4,653,519	9.28
Cantor Fitzgerald	2,587,858	5.16
S I Sanderson	1,759,662	3.51
RJ Horton	1,731,162	3.45

#### Completeness of information to auditors

In accordance with the Companies Audit, Investigations and Enterprise Act 2004, as far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Creditor payment policy

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

At 31 July 2006 the Group had an average of 47 days' purchases outstanding in trade creditors (2005: 52 days).

#### Auditors

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

On behalf of the Board

#### G G Moat

Managing Director  
8 November 2006

# Statement of directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom Law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

# Remuneration report

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

## **Remuneration committee and advisers**

The Company's Remuneration Committee is chaired by Barry Moat and its other member is Graham Wilson.

The Committee makes recommendations to the Board on an overall remuneration package for executive Directors and other senior executives in order to retain, attract and motivate high quality executives capable of achieving the Group's objectives.

## **Remuneration policy**

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

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

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

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

The fees for non-executive Directors are determined by the Board within the limits stipulated in the Articles of Association.

The non-executive Directors are not involved in any discussions or decision about their own remuneration.

### **Performance related bonuses:**

Bonuses are awarded to the executive Directors based on fixed formulae relating to the Group's financial performance, determined in advance by the Remuneration Committee.

### **Executive share options:**

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

### Savings related share option scheme:

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

David Horrocks holds options over 16,264 shares exercisable from 17 November 2008 at a price of 43p per share.

### Pension contributions:

The Company makes contributions of 6% of basic salary into a personal defined contribution pension scheme for David Horrocks.

### Service agreements

All service agreements for the executive Directors are terminable on 12 months' notice by either party but not so as to expire earlier than 24 months from its commencement date of 28 October 2005. The service agreements for the non-executive Directors were for an initial period of 24 months from 28 October 2005 unless and until terminated by the Company giving 12 months' notice. The service agreements for non-executive Directors can be terminated by the Director at any time without notice.

### Directors' remuneration

The remuneration of the Directors is as follows:

	Basic salary and fees £000	Bonuses £000	Benefits in kind <sup>(1)</sup> £000	Total 2006 £000	Total 2005 <sup>(4)</sup> £000	Pension contributions 2006 £000	Pension contributions 2005 £000
<b>Executive Directors</b>							
Garry Moat <sup>(1)(2)</sup>	–	–	8	<b>8</b>	90	–	–
David Horrocks <sup>(1)(3)</sup>	113	–	14	<b>127</b>	61	4	–
<b>Non-executive Directors</b>							
Graham Wilson	38	–	–	<b>38</b>	28	–	–
Barry Moat	31	–	–	<b>31</b>	23	–	–
	182	–	22	<b>204</b>	202	4	–

(1) The remuneration packages of Garry Moat and David Horrocks include non-cash benefits including the provision of a company car, fuel, private healthcare and life assurance.

(2) Garry Moat was entitled to a salary of £140,000 in the current year. This salary was waived.

(3) David Horrocks' salary in 2005 reflects remuneration in the 7 months following his appointment during January 2005.

(4) The 2005 comparative figures represent the remuneration of the Directors of BNS Telecom Group plc in respect of their services as Directors of BNS Telecom Limited and its subsidiaries in 2005.

### Interests in options

The interests of the Directors in executive share options are as follows:

	Exercise price	At 1 August 2005 No.	Granted during the year No.	Exercised during the year No.	At 31 July 2006 No.
David Horrocks (executive share options)	16.18p	1,547,175	–	–	1,547,175
David Horrocks (savings related share option scheme)	43p	–	16,624	–	16,624

Options over 2,947 ordinary shares in the capital of BNS Telecom Limited 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 in BNS Telecom Group plc with an exercise price of 16.18p per share following the completion of the share for share exchange on 7 October 2005, as disclosed on page 14. The options may be exercised between 27 April 2008 and 27 April 2015 or earlier in the case of cessation of employment due to injury, disability or redundancy.

# Corporate governance

BNS Telecom Group plc is listed on AIM and is not subject to the requirements of the revised Combined Code published in July 2003 on corporate governance, nor is it required to disclose its specific policies in relation to corporate governance. However, the Directors are committed to delivering high standards of corporate governance to the Company's shareholders and other stakeholders including employees, suppliers and the wider community. The Board of Directors operates within the framework described below.

## The workings of the Board and its committees

### The Board of Directors

The Board currently comprises the Non-Executive Chairman, the Managing Director, the Finance Director, the Commercial Director and an independent non-executive Director. The biographies of each Director appear on page 11.

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

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the financial statements is given on page 14.

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

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

### Remuneration committee

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

Further details of the Group's policies on remuneration and service contracts are given in the report on the Directors' remuneration on pages 15 to 17.

### Audit committee

The Audit Committee, which is chaired by Graham Wilson, comprises both non-executive Directors and meets not less than twice annually. The Committee provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by Garry Moat and David Horrocks.

### Nominations committee

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

## The workings of the Board and its committees (continued)

### Shareholder relations

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

The Chairman's Statement and the Operating and Financial Review on pages 2 to 10 include a detailed review of the business and planned future developments.

The executive Directors meet with the Company's institutional shareholders following the announcement of interim and final results and at other appropriate times. The Managing Director ensures that the views of shareholders are communicated to the Board as a whole. The Directors are also in regular contact with stockbrokers' analysts. The Group has developed a website containing investor information to improve communications with individual investors and other interested parties.

In addition to meetings with executive Directors, institutional shareholders have the opportunity of additional meetings with the Chairman. The shareholders have further opportunities to make their views known through follow up interviews by the Company's brokers. Their views are documented and circulated to all Directors.

### Internal control

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

Key elements of the Group's internal controls are:

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

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

# Independent auditors' report

to the members of BNS Telecom Group plc

We have audited the Group and parent Company financial statements (the "financial statements") of BNS Telecom Group plc for the year ended 31 July 2006 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Note of Historical Cost Profits and Losses, Group and Company Balance Sheets, Group Cash Flow Statement and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of Directors and auditors**

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

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

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

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, Remuneration Report, Corporate Governance, Directors' Report and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

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

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

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 July 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **Ernst & Young LLP**

Registered Auditor  
Newcastle upon Tyne  
9 November 2006

# Group profit and loss

for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Turnover</b>			
Continuing operations		20,373	19,762
Acquisitions		5,425	–
<b>Group turnover</b>	2	<b>25,798</b>	19,762
Cost of sales	3	(17,416)	(12,787)
<b>Gross profit</b>		<b>8,382</b>	6,975
Net operating expenses	3	(7,645)	(5,624)
<b>Operating profit</b>			
Continuing operations		681	1,351
Acquisitions		56	–
<b>Group operating profit</b>	4	<b>737</b>	1,351
Share of operating loss in associates		(11)	–
<b>Total operating profit: Group and share of associates</b>			
		726	1,351
Interest receivable and similar income		89	13
Interest payable and similar charges	7	(161)	(133)
<b>Profit on ordinary activities before taxation</b>		<b>654</b>	1,231
Tax on profit on ordinary activities	8	(220)	(385)
<b>Profit on ordinary activities after taxation</b>		<b>434</b>	846
Equity minority interests		(23)	–
<b>Profit for the financial year</b>		<b>411</b>	846
<b>Earnings per ordinary share</b>			
Basic	10	0.86p	1.95p
Diluted	10	0.82p	1.94p

# Group statement of total recognised gains and losses

for the year ended 31 July 2006

There are no recognised gains and losses other than the profit attributable to shareholders of the Company of £411,000 in the year ended 31 July 2006 and the profit of £846,000 in the year ended 31 July 2005.

# Group note of historical cost profits and losses

for the year ended 31 July 2006

	2006 £000	2005 £000
Reported profit on ordinary activities before taxation	654	1,231
Realisation of property revaluation gains of previous years	58	10
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	7	5
Historical cost profit on ordinary activities before taxation	719	1,246
Historical cost profit for the year retained after taxation and dividends	476	861

# Group balance sheet

at 31 July 2006

	Notes	2006 £000	2005 £000
<b>Fixed assets</b>			
Intangible assets	11	2,172	–
Tangible assets	12	5,824	3,724
		<b>7,996</b>	<b>3,724</b>
<b>Current assets</b>			
Stocks	14	221	190
Debtors	15	3,011	3,038
Cash at bank and in hand		2,614	1,642
		<b>5,846</b>	<b>4,870</b>
<b>Creditors: amounts falling due within one year</b>	16	<b>(9,585)</b>	<b>(6,465)</b>
<b>Net current liabilities</b>		<b>(3,739)</b>	<b>(1,595)</b>
<b>Total assets less current liabilities</b>		<b>4,257</b>	<b>2,129</b>
<b>Creditors: amounts falling due after one year</b>	17	<b>(300)</b>	<b>(1,526)</b>
<b>Provisions for liabilities</b>	20	<b>(36)</b>	<b>(42)</b>
		<b>3,921</b>	<b>561</b>
<b>Capital and reserves</b>			
Called up share capital	21	5,012	4,331
Share premium account	22	2,245	–
Profit and loss account	22	411	140
Other reserves	22	(3,770)	(3,910)
Total shareholders' funds	22	3,898	561
Equity minority interests		23	–
		<b>3,921</b>	<b>561</b>

## G G Moat

Managing Director

## D J Horrocks

Finance Director

8 November 2006

# Company balance sheet

at 31 July 2006

	Notes	2006 £000
<b>Fixed assets</b>		
Tangible assets	12	–
Investments	13	7,476
		<b>7,476</b>
<b>Current assets</b>		
Stocks	14	–
Debtors	15	2,583
Cash at bank and in hand		–
		<b>2,583</b>
<b>Creditors: amounts falling due within one year</b>	16	(83)
<b>Net current assets</b>		<b>2,500</b>
<b>Total assets less current liabilities</b>		<b>9,976</b>
<b>Capital and reserves</b>		
Called up share capital	21	5,012
Share premium account	22	2,245
Profit and loss account	22	50
Other reserves	22	2,669
<b>Equity shareholders' funds</b>	22	<b>9,976</b>

## G G Moat

Managing Director

## D J Horrocks

Finance Director

8 November 2006

# Group cash flow statement

for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Net cash inflow from operating activities</b>	23(a)	<b>609</b>	3,293
<b>Returns on investments and servicing of finance</b>			
Interest received		89	13
Interest paid		(161)	(133)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(72)</b>	(120)
<b>Taxation</b>			
Corporation tax paid		(332)	(66)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(2,682)	(1,289)
Payments to acquire intangible assets		(186)	–
Receipts from sales of tangible fixed assets		522	162
Receipt from/(advance of) loan made to related company	27	799	(684)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(1,547)</b>	(1,811)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(944)	–
Cash and cash equivalents acquired		173	–
<b>Net cash outflow on acquisitions and disposals</b>		<b>(771)</b>	–
<b>Net cash (outflow)/inflow before financing</b>		<b>(2,113)</b>	1,296
<b>Financing</b>			
Issue of ordinary share capital (net of expenses)		2,726	–
New bank loan	23(b)	3,229	800
Repayment of long term bank loan	23(b)	(1,902)	(103)
Capital element of hire purchase contracts	23(b)	(706)	(615)
<b>Net cash inflow from financing</b>		<b>3,347</b>	82
<b>Increase in cash in the year</b>	23(b)	<b>1,234</b>	1,378

## Reconciliation of net cash flow to movement in net debt

	Notes	2006 £000	2005 £000
Increase in cash in the year		1,234	1,378
Cash inflow from movement in debt and lease financing		(621)	(82)
Change in net debt resulting from cash flows		613	1,296
New finance leases		(248)	(963)
<b>Movement in net debt in the year</b>	23(b)	<b>365</b>	333
Opening net debt	23(b)	(1,095)	(1,428)
<b>Closing net debt</b>	23(b)	<b>(730)</b>	(1,095)

# Notes to the financial statements

for the year ended 31 July 2006

## 1. Accounting policies

### Basis of preparation

The financial statements are 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 financial statements present the results of the Group as if BNS Telecom Group plc had been in existence and had controlled BNS Telecom Limited and its subsidiaries for the whole period under review, by applying merger accounting principles. Subsequent acquisitions by the Group of Modus Telecom Limited, EMC Partnership Limited, BNS Mobile Limited and Billing Online Limited have been consolidated using the acquisition method of accounting. Accordingly, the Group profit and loss account and the Group cash flow statement include the results of acquired businesses from their dates of acquisition. The purchase consideration has been allocated to assets and liabilities based on fair values at acquisition.

No profit and loss account is presented for BNS Telecom Group plc as permitted by Section 230 of the Companies Act 1985. The profit on ordinary activities after taxation dealt with in the financial statements of the parent Company was £50,000 (2005: £Nil).

### Tangible fixed assets

Freehold buildings are stated at valuation, less depreciation with interim assessments performed between full valuations and whenever there are indications of material change in value. Surpluses arising from the 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. 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 are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

### Intangible fixed assets

#### 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.

#### Subscriber acquisition costs

Subscriber acquisition costs, being the direct third party costs of recruiting and retaining new mobile contracts, are capitalised as an intangible asset and are amortised over the period expected to benefit from the contract.

### 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.

## Notes to the financial statements for the year ended 31 July 2006 (continued)

### 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 exceptions:

- 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; and
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is 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 the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the asset's useful economic life and the lease term. 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

The Group 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.

### Employee share option schemes

The Group has taken advantage of the exemption of UITF 17 (revised) Employee Share Schemes from applying the abstract to the Company's Inland Revenue approved SAYE scheme.

### 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 the Group's network.
Line access charges	- revenue from line access charges is recognised evenly over the period to which the access contract relates.
Hardware and installation	- revenue from the sale of hardware and installation services is recognised when the hardware is accepted by the customer.
Maintenance services	- annual fees charged to customers for the provision of maintenance and support services are recognised on a straight line basis over the period of the related agreement. Any discounts in respect of maintenance services are recognised in the year in which the discount is granted.
Connection and mobile commissions	- commission receivable from mobile phone operators is recognised in line with the fulfilment of the associated obligation.

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

## 2. Turnover and segmental information

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 and profit before tax are attributable to one continuing activity, that of the supply and maintenance of telecommunication services and systems to customers and arose substantially all in the United Kingdom.

All net assets are held in the United Kingdom.

## 3. Cost of sales and operating expenses

	Continuing £000	Acquisitions £000	2006 Total £000	Continuing £000	Acquisitions £000	2005 Total £000
Cost of sales	12,802	4,614	17,416	17,787	–	12,787
Distribution costs	2,143	113	2,256	1,308	–	1,308
Administrative expenses	4,747	642	5,389	4,316	–	4,316

## 4. Operating profit

	2006 £000	2005 £000
Operating profit is stated after charging/(crediting):		
Depreciation of owned assets	435	218
Depreciation of assets under finance lease	306	247
Loss on disposal of tangible fixed assets	16	28
Amortisation of intangible assets	113	–
Operating lease rentals	210	82
- land and buildings		
- fixtures, fittings, equipment and motor vehicles	8	25
Auditors' remuneration:		
- audit services	60	40
- non audit services	7	8
Rental income	(14)	(10)

Included in auditors' remuneration is an amount of £5,000 (2005: £Nil) in respect of the Company.

Auditors' remuneration disclosed above does not include those amounts which have been offset against the share premium account. These primarily relate to non-audit fees of £123,000 in respect of the admission of the Company to the Alternative Investment Market.

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

**5. Directors' emoluments**

	2006 £000	2005 £000
Emoluments	204	202
Company contributions paid to money purchase pension schemes	4	–

	2006 No.	2005 No.
Members of money purchase pension schemes	1	–

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

	2006 £000	2005 £000
Emoluments	127	90
Company contributions paid to money purchase schemes	4	–

The 2005 comparative figures above represent the remuneration of the Directors of BNS Telecom Group plc in respect of their services as Directors of BNS Telecom Limited and its subsidiaries in 2005, prior to its acquisition by the Company.

**6. Staff costs**

	2006 £000	2005 £000
Wages and salaries	4,638	3,043
Social security costs	462	355
Other pension costs	56	23
	5,156	3,421

The monthly average number of employees (including Directors) during the year was:

	2006 No.	2005 No.
Corporate and administration	52	35
Sales and customer service	104	81
Technical and engineering	42	38
	198	154

**7. Interest payable and similar charges**

	2006 £000	2005 £000
Bank loans and overdrafts	88	73
Other interest payable	5	7
Finance charges payable under finance leases and hire purchase contracts	68	53
	161	133

## 8. Taxation

### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2006 £000	2005 £000
<b>Current tax:</b>		
UK corporation tax	224	379
Tax overprovided in previous years	2	(14)
<b>Total current tax</b>	<b>226</b>	<b>365</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(3)	12
Prior year adjustment	(3)	8
<b>Group deferred tax</b>	<b>(6)</b>	<b>20</b>
<b>Tax on profit on ordinary activities</b>	<b>220</b>	<b>385</b>

### (b) Factors affecting current tax charge

	2006 £000	2005 £000
Profit on ordinary activities before taxation	654	1,231
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005: 30%)	196	369
Effects of:		
Non deductible expenses and non taxable income	14	21
Capital allowances (in excess of)/less than depreciation	3	(11)
Adjustments in respect of previous periods	2	(14)
Other tax adjustments	1	–
Losses carried forward	10	–
	30	(4)
<b>Current tax charge</b>	<b>226</b>	<b>365</b>

### (c) Factors that may affect future tax charges

There would be a liability to taxation of approximately £53,000 (2004: £66,000) in respect of capital gains on properties if those properties were to realise the value stated in the financial statements.

## 9. Dividends

	2006 £'000	2005 £'000
Proposed for approval by shareholders at the AGM:		
Final dividend for 2006: 0.5p (2005: Nil)	251	–

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

**10. Earnings per share**

	2006	2005
Profit attributable to equity shareholders (£'000)	411	846
Weighted average number of ordinary shares (No.)	47,899,038	43,312,500
Weighted average number of employee share options (No.)	2,002,823	402,689
Diluted weighted average number of ordinary shares	49,901,861	43,715,189
<i>Actual earnings per share</i>		
Basic earnings per share (pence)	0.86p	1.95p
Diluted earnings per share (pence)	0.82p	1.94p

**11. Intangible fixed assets**

Group	Goodwill £000	Subscriber acquisition costs £000	Total £000
<i>Cost:</i>			
At 1 August 2005	–	–	–
Additions	2,099	186	2,285
At 31 July 2006	2,099	186	2,285
<i>Amortisation:</i>			
At 1 August 2005	–	–	–
Charge for year	55	58	113
At 31 July 2006	55	58	113
<i>Net book value:</i>			
At 31 July 2006	2,044	128	2,172
At 1 August 2005	–	–	–

## 12. Tangible fixed assets

Group	Freehold land and buildings £000	Improvements to leasehold property £000	Fixtures, fittings and office equipment £000	Computer equipment £000	Motor vehicles £000	Assets in course of construction £000	Total £000
Cost or valuation:							
At 1 August 2005	1,722	–	440	594	1,817	–	4,573
Additions	–	44	377	472	263	1,774	2,930
Disposals	(273)	–	–	–	(480)	–	(753)
Acquisitions of subsidiaries	–	–	14	666	–	–	680
At 31 July 2006	1,449	44	831	1,732	1,600	1,774	7,430
Depreciation							
At 1 August 2005	21	–	164	293	371	–	849
Disposals	(8)	–	–	–	(207)	–	(215)
Provided during the year	14	1	89	280	357	–	741
Acquisitions of subsidiaries	–	–	4	227	–	–	231
At 31 July 2006	27	1	257	800	521	–	1,606
Net book value							
At 31 July 2006	1,422	43	574	932	1,079	1,774	5,824
At 31 July 2005	1,701	–	276	301	1,446	–	3,724

Included in the net book value of fixtures, fittings, computer equipment and motor vehicles above, is an amount of £1,033,000 (2005: £1,433,000) 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 £5,000 (2005: £5,000) and accumulated depreciation of £5,000 (2005: £4,000).

The Group's freehold property was valued on the basis of open market value at £480,000 by Smith Cole Wright, Chartered Surveyors, on 12 February 2004. The valuation was in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The valuers were external to the Group. Subsequent to the valuation, in the year ended 31 July 2005, the Group purchased freehold land at a cost of £969,000. The Directors are not aware of any material change in value and consequently the valuation has not been updated.

Group

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

	£000
Cost:	
At 1 August 2005	1,498
At 31 July 2006	1,225
Cumulative depreciation based on cost:	
At 1 August 2005	30
At 31 July 2006	22

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

**13. Investments**

Company	£000
Cost:	
At 1 August 2005	–
Additions	7,476
Disposals	–
At 31 July 2006	7,476

The cost of investments represents shares in Group undertakings.

**Acquisition of Modus Telecom Limited (“Modus”)**

On 26 August 2005 BNS Telecom Limited acquired 78% of the issued share capital of Modus for total consideration, including costs, of £103,000. A preliminary assessment of the fair value of the net liabilities acquired gives rise to goodwill of £549,000.

Net assets at date of acquisition	Book value and provisional fair value £000
Tangible fixed assets	132
Debtors	14
Cash	(4)
Creditors falling due within one year	(588)
Net liabilities acquired	(446)
Goodwill arising	549
Consideration	103
Cash	50
Fees	53
Consideration	103

Goodwill of £549,000 arising on this transaction has been capitalised and is being amortised over 20 years, which is based upon the Directors' estimate of the useful economic life.

The last financial statements of Modus were prepared for the period 1 October 2003 to 31 March 2005, in which they reported turnover of £1,652,000 operating loss of £225,000 and retained losses of £203,000. In the period from 1 April 2005 to 26 August 2005 Modus reported turnover of £601,000, an operating loss of £265,000 and retained losses of £265,000.

During the year, Modus utilised £252,000 of the Group's net operating cash flows and £219,000 for capital expenditure and financial investment.

The fair values attributed to the acquisition are provisional as the Directors have not yet finalised their detailed evaluation of net assets at the date of acquisition.

### Acquisition of EMC Partnership Limited ("EMC")

On 9 January 2006 BNS Telecom Limited acquired 75% of the issued share capital of EMC for total consideration, including costs, of £112,000. An assessment of the fair value of the net assets acquired gives rise to goodwill of £12,000.

	Book value and fair value £000
Net assets at date of acquisition	
Cash	100
Net assets acquired	100
Goodwill arising	12
Consideration	112
Cash	100
Fees	12
Consideration	112

EMC was incorporated on 15 June 2005 and commenced trading on 13 February 2006. During the year, EMC utilised £89,000 of the Group's net operating cash flows.

### Acquisition of BNS Mobile Limited (formerly Telecom Asia Limited) ("BNS Mobile")

On 25 January 2006 BNS Telecom Group plc acquired the share capital of BNS Mobile for total consideration, including costs, of £476,000, comprising cash of £276,000 and £200,000 in new ordinary shares of the Company, being 328,947 shares. A preliminary assessment of the fair value of the net assets acquired gives rise to goodwill of £496,000.

	Book value and provisional fair value £000
Net assets at date of acquisition	
Tangible fixed assets	39
Debtors	165
Cash	6
Creditors falling due within one year	(230)
Deferred taxation	(1)
Net liabilities acquired	(21)
Goodwill arising	497
Consideration	476
Cash	250
Shares issues	200
Fees	26
Consideration	476

Of the cash consideration of £250,000, £25,000 was deferred for six months and paid in August 2006.

Goodwill of £497,000 arising on this transaction has been capitalised and is being amortised over 20 years, which is based on the Directors' estimate of useful economic life.

The last financial statements of BNS Mobile were prepared for the year ended 31 December 2005, in which they reported turnover of £428,000, operating profit of £159,000 and retained profit of £54,000. In the period 1 January 2006 to 30 January 2006 BNS Mobile reported turnover of £34,000, and operating loss of and retained losses of £74,000.

During the year, BNS Mobile utilised £20,000 of the Group's net operating cash flows and £106,000 for capital expenditure and financial investment.

The fair values attributed to the acquisition are provisional as the Directors have not yet finalised their detailed evaluation of net assets at the date of acquisition.

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

**13. Investments (continued)**

**Acquisition of Billing Online Limited ("Billing Online")**

On 16 March 2006 BNS Telecom Limited acquired the entire share capital of Billing Online for total consideration, including costs, of £479,000. A preliminary assessment of the fair value of the net assets acquired gives rise to goodwill of £1,041,000.

	Book value and provisional fair value £000
Net assets at date of acquisition	
Tangible fixed assets	277
Debtors	98
Cash	71
Creditors falling due within one year	(1,008)
Net liabilities acquired	(562)
Goodwill arising	1,041
Consideration	479
Cash	425
Fees	54
Consideration	479

Goodwill of £1,041,000 arising on this transaction has been capitalised and is being amortised over 20 years, which is based on the Directors' estimate of useful economic life.

Billing Online is a dormant company. The last financial statements for Excel Advance Limited, the sole trading subsidiary of Billing Online, were prepared for the year ended 31 October 2005, in which they reported turnover of £3,372,000, operating profit of £91,000 and retained profits of £88,000. In the period 1 November to 16 March 2006 Excel Advance Limited reported turnover of £1,820,000, operating loss of £804,000 and retained loss of £803,000.

During the year, Billing Online utilised £740,000 of the Group's net operating cash flows.

The fair values attributed to the acquisition are provisional due to the proximity of the date of acquisition to the financial year end.

**Investment in UKTelecoms Limited**

On 28 February 2006 the Company subscribed for 45% of the share capital of UKTelecoms Limited for £45. The Company had no assets or liabilities at the date of acquisition and the Group's share of £11,000 of its operating losses have been recognised in the profit and loss account in the year.

Details of the investments in which the Company and the Group hold 20% 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
BNS Telecom Limited	England and Wales	100%	Telecommunications
Modus Telecom Limited	England and Wales	*78%	Telecommunications
EMC Partnership Limited	England and Wales	*75%	Telecommunications
BNS Mobile Limited	England and Wales	100%	Telecommunications
Billine Online Limited	England and Wales	*100%	Telecommunications
Excel Advance Limited	England and Wales	*100%	Telecommunications
Billing Online (UK) Limited	England and Wales	*100%	Dormant
Hallco (388) Limited	England and Wales	*100%	Dormant
Chamber Telecom Limited	England and Wales	*100%	Dormant
Cheapercalls.com Limited	England and Wales	*100%	Dormant
UK Telecoms Limited	England and Wales	45%	Telecommunications
Vertigo 3G Limited	England and Wales	*100%	Dormant

\* Held by a subsidiary undertaking.

#### 14. Stocks

Group	2006 £000	2005 £000
Finished goods and goods for resale	221	190

#### 15. Debtors

	2006 £000	Group 2005 £000	Company 2006 £000
Trade debtors	1,585	1,246	–
Other debtors	116	9	–
Loans to related companies (note 27)	–	799	–
Prepayments and accrued income	1,061	984	14
Amounts owed by Group undertakings	–	–	2,569
Amounts owed by associated companies	249	–	–
	<b>3,011</b>	<b>3,038</b>	<b>2,583</b>

#### 16. Creditors: amounts falling due within one year

	2006 £000	Group 2005 £000	Company 2006 £000
Bank loans and overdrafts	2,622	684	–
Obligations under finance leases and hire purchase contracts	422	527	–
Trade creditors	3,521	2,446	–
Corporation tax	254	325	45
Other taxes and social security costs	221	362	–
Accruals and deferred income	2,534	2,121	27
Amounts owed to associated companies	11	–	11
	<b>9,585</b>	<b>6,465</b>	<b>83</b>

At the year end, the bank loans and overdraft were secured by fixed and floating charges over the Group's assets.

## Notes to the financial statements for the year ended 31 July 2006 (continued)

### 17. Creditors: amounts falling due after more than one year

	2006 £000	Group 2005 £000
Bank loans (note 18)	–	873
Obligations under finance leases and hire purchase contracts (note 19)	300	653
	300	1,526

### 18. Financial instruments

#### Financial risk factors and management

The Group's principal financial instruments during the year comprised cash, cash equivalents and loans. Other financial assets and liabilities, such as trade creditors and trade debtors, arise directly from the Group's operating activities.

The main risks associated with the Group's financial assets and liabilities are credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Group regularly review its exposure to these risks and, where appropriate, will taken action to minimise the impact of these risks on the business. Given the size of the Group, the Directors have not designated responsibility of monitoring financial risk management to a sub-committee of the Board. The Group's finance department implements the policies set by the Board.

It is (and has been throughout the periods under review) the Group's policy that no trading in financial instruments shall be undertaken. The fair value of financial assets and liabilities is approximately equal to their book values. In accordance with FRS13 – "Derivatives and other financial instruments: disclosures", the Group has taken advantage of the exemption available for short-term debtors and creditors. Capital instruments that contain an obligation to transfer economic benefit are classified as liabilities and are recorded at their net proceeds. Financial assets are recorded at cost and the return on such assets as accrued in the period to which it relates.

#### Credit risk

The Group has implemented policies to minimise the Group's exposure to loss due to a counterparty's failure to honour its obligations. Appropriate credit checks are undertaken on all potential customers before new contracts are accepted. Individual exposures are monitored with customers subject to credit limits to ensure the Group's exposure to bad debts is minimised.

#### Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generated by its operations. Significant items of capital expenditure are approved by the Board. Flexibility is maintained by retaining surplus cash in readily accessible bank deposit accounts.

The Group manages its external funding facilities to ensure that both short and longer term funding is available to provide short term flexibility whilst providing sufficient funding for organic investment needs. The Board is at a well advanced stage in agreeing a long term financial arrangement for the new head office project.

#### Interest rate risk

The Group has interest bearing liabilities and cash balances that earn interest. The Group has a policy of maintaining facilities with both fixed and floating rates of interest.

#### Foreign currency risk

The Group's operations are all based in the UK but the Network Services Division also buys and sells an element of telecoms services denominated in Euros and US Dollars.

Whenever possible the Group purchases calls traffic in the same currency as the ongoing sales transaction. The Group does not use forward foreign currency exchange contracts.

### Interest rate risk profile of financial liabilities

The Group has financial instruments as at 31 July 2006 subject to fixed and floating interest rates as follows:

		Loans £000	Finance leases and hire purchase agreements £000	Total £000
2006	% share			
Fixed rate liabilities	23.3%	–	722	722
Floating rate liabilities	76.7%	2,376	–	2,376
Total	100.0%	2,376	722	3,098
2005	% share			
Fixed rate liabilities	52.9%	–	1,180	1,180
Floating rate liabilities	47.1%	1,049	–	1,049
Total	100.0%	1,049	1,180	2,229

### Maturity analysis of financial liabilities

Group	2006 £000	2005 £000
Amounts falling due:		
In one year or less or on demand	2,376	176
In more than one year but not more than two years	–	122
In more than two years but not more than five years	–	365
In more than five years	–	386
	2,376	1,049
Less: included in creditors: amounts falling due within one year	(2,376)	(176)
	–	873

The maturity analysis of obligations under finance leases and hire purchase contracts is presented in note 19.

	2006 £000	2005 £000
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
£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	–	212
	–	994
Less: included in creditors: amounts falling due within one year	–	(121)
	–	873

During the year the Group renegotiated bank loan facilities to fund the new office building. Facilities available amount to £3,500,000 in total, bearing interest at bank base rate plus 1.5%, of which £2,376,000 was drawn down at 31 July 2006. The facility is repayable on demand until such time as the building is completed, after which the facility will be converted into a 15 year term loan at the same rate of interest. The final drawdown on the demand facility is expected to be made in November 2006.

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

**19. Obligations under leases and hire purchase contracts**

Group

Amounts due under finance leases and hire purchase contracts:

	2006 £000	2005 £000
Amounts payable:		
Within one year	466	581
In two to five years	330	732
	<b>796</b>	1,313
Less: finance charges allocated to future periods	(74)	(133)
	<b>722</b>	1,180
Less: included in creditors: amounts falling due within one year	(422)	(527)
	<b>300</b>	653

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:

	2006 £000	Land and buildings 2005 £000	2006 £000	Other 2005 £000
Operating leases which expire:				
Within one year	65	89	1	–
In two to five years	80	–	–	7
In over five years	–	–	–	–
	<b>145</b>	89	<b>1</b>	7

**20. Provisions for liabilities**

Provisions for liabilities comprises:

	2006 £000	Group 2005 £000
Deferred taxation	<b>36</b>	42

The deferred tax liability is made up as follows:

	2006 £000	Group 2005 £000
Accelerated capital allowances	<b>36</b>	42

**21. Share capital**

Authorised

	2006 £000	2005 £000
Ordinary shares of 10p each	<b>6,500</b>	6,500

Allotted, called up and fully paid

	2006 No.	2005 No.	2006 £000	2005 £000
Ordinary shares of 10p each	<b>50,122,930</b>	43,312,940	<b>5,012</b>	4,331

The initial authorised share capital of BNS Telecom Group Limited on incorporation on 1 August 2005 was 100 shares of £1 each. On 7 October 2005, each ordinary share was subdivided into 10 ordinary shares of 10p each. The authorised share capital was then increased by £6,499,900 by the creation of 64,999,000 ordinary shares of 10p each.

On incorporation as a limited Company on 1 August 2005, 1 ordinary share was issued at £1. Prior to flotation on 7 October 2005, a further 43,312,490 10p ordinary shares were issued in a share for share exchange of 100% of the share capital of BNS Telecom Limited, comprising 82,500 ordinary £1 shares. The fair value of the consideration received being the shares in BNS Telecom Limited, was determined by the Directors to be £7,000,000. In accordance with section 131 of the Companies Act 1985, the excess of the fair value of the consideration received, net of issue costs, over the nominal value of the shares issued has been taken to a merger reserve.

On 25 November 2005 the Company floated on AIM. As part of this process, 6,481,482 ordinary shares of 10p each were placed with various institutional shareholders. The cash consideration net of costs received amounted to £2,732,000 and resulted in an increase in the share premium account of £2,078,000.

On 30 January 2006 the Company issued 328,947 ordinary shares of 10p each as part consideration in the acquisition of BNS Mobile Limited and resulted in an increase in the share premium account of £167,000.

### Share options

The Company operates Share Option Schemes for selected employees and executive Directors.

As at 31 July 2006 options granted under the share option schemes were outstanding over a total of 1,814,175 ordinary shares.

Date of grant	Exercisable from	Exercisable to	Number of Ordinary share under option	Exercise price
27 April 2005	27 April 2008	27 April 2015	1,547,175	16.18p
17 November 2005	17 November 2008	17 November 2015	267,000	54p

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

Group	Share capital £000	Share premium account £000	Profit and loss account £000	Revaluation reserve £000	Other reserve £000	Total shareholders' funds/(deficit) £000
At 1 August 2004	83	88	(706)	250	–	(285)
Reclassification of opening consolidated reserves	(83)	(88)	–	(250)	421	–
Merger adjustment	4,331	–	–	–	(4,331)	–
Opening consolidated capital and reserves at 1 August 2004	4,331	–	(706)	–	(3,910)	(285)
Profit for the year	–	–	846	–	–	846
At 31 July 2005	4,331	–	140	–	(3,910)	561
Merger adjustment	–	–	(140)	–	140	–
Profit for the year	–	–	411	–	–	411
Shares issued	681	3,019	–	–	–	3,700
Costs incurred in issue of shares	–	(774)	–	–	–	(774)
Shareholders' funds at 31 July 2006	5,012	2,245	411	–	(3,770)	3,898

Notes to the financial statements  
for the year ended 31 July 2006 (continued)

Company	Share capital £000	Share premium account £000	Profit and loss account £000	Other reserve £000	Total shareholders' funds £000
At 1 August 2005	–	–	–	–	–
Merger adjustment	4,331	–	–	2,669	7,000
Profit for the year	–	–	50	–	50
Shares issued	681	3,019	–	–	3,700
Costs incurred in issue of shares	–	(774)	–	–	(774)
Shareholders' funds at 31 July 2006	5,012	2,245	50	2,669	9,976

### 23. Notes to the cash flow statement

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

Group and Company	2006 £000	2005 £000
Operating profit	726	1,351
Depreciation of tangible assets	741	465
Loss on disposal of tangible fixed assets	16	28
Amortisation of intangible fixed assets	113	–
Increase in stocks	(31)	(2)
(Increase)/decrease in debtors	(495)	994
(Decrease)/increase in creditors within one year	(472)	457
Share of loss in associate	11	–
Net cash inflow from operating activities	609	3,293

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

	1 August 2005 £000	Cash flow £000	Non cash flows £000	31 July 2006 £000
Cash at bank and in hand	1,642	972	–	2,614
Bank overdrafts	(508)	262	–	(246)
Cash	1,134	1,234	–	2,368
Finance leases and hire purchase contracts	(1,180)	706	(248)	(722)
Loans due within one year	(176)	(2,200)	–	(2,376)
Loans due after one year	(873)	873	–	–
	(1,095)	613	(248)	(730)

### 24. Capital commitments

Amounts contracted for at the year end but not provided in the financial statements amounted to £831,000 (2005: £Nil).

### 25. Pension commitments

The Group operates a defined contribution pension scheme for the benefit of all Directors and employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions charged to the profit and loss account are £55,838 (2005: £23,096). The unpaid contributions outstanding at year end are £11,329 (2005: £Nil).

## 26. Transactions with Directors

Group

Included within debtors (note 15) are the following amounts relating to loans to Directors.

GG Moat  
£000

Amounts outstanding 1 August 2005	–
Amounts advanced during the year	568
Amount repaid during the year	(568)
Amounts outstanding 31 July 2006	–
Maximum outstanding during the year	206

## 27. Related party transactions

The Group subscribed £45 for a 45% share of UKTelecoms Limited on 28 February 2006. At the same date Barry Moat, a non-executive Director of BNS Telecom Group plc, subscribed £10 for a 10% share of the ordinary share capital of UKTelecoms Limited.

UKTelecoms Limited acquired a number of customers during the year and the Group provided telecoms services amounting to £192,000 (2005: £Nil) and recharged customer management costs of £138,000 (2005: £Nil) during the year. At the year end an amount of £249,000 (2005: £Nil) was due to the Group from UKTelecoms Limited.

In the prior year there was an amount of £799,000 included in debtors that related to a loan to Moat Properties Limited, a company controlled by Mr G G Moat. This amount has been repaid in the year.

During the year Moat Properties Limited provided services to the Group in the nominal course of business and on an arms length basis with a total value of £35,000 (2004: £Nil). At the year end there was an amount of £Nil (2005: £799,000) owing to the Group from Moat Properties Limited.

# Directory

## Registered and Head Office

Telecom House  
Princess Way  
Low Prudhoe  
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NE42 6NJ

## Company Secretary

D J Horrocks

## Nominated Broker and Nominated Advisor

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EC2N 1PH

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## Solicitors

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