

BNS Telecom Group plc

Interim Results for the six months ended 31 January 2006

BNS Telecom Group plc, one of the UK's leading providers of white labelled telecoms services to the UK SME and corporate market, is publishing its interim results for the six months ended 31 January 2006.

- Group turnover up 15% to £11.5 million (2005: £10.0 million).
- Operating profit before goodwill amortisation of £208,000 (2005: £996,000).
- Profit before tax of £132,000 (2005: £913,000).
- £2.7 million after expenses raised through placing on AIM.
- Modus Telecom, EMC Partnership and BNS Mobile (formerly Telecom Asia) acquired.
- £1.3 million of net funds at 31 January 2006.
- New white label joint marketing relationships launched with South East Water Telecom, NUFC Telecom, Norfolk Chamber Telecom and Isle of Wight Chamber Telecom.
- New joint marketing relationships to be launched in current financial year with Utility Aid Telecom, Charity Buying Group Telecom, UK Telecom and Yorkshire Tourist Board Telecom.
- Billing Online Limited acquired for £425,000 on 17 March 2006

Graham Wilson, Chairman, said:

“As anticipated Group profits at the half year are behind last year as we continued our infrastructure investment programme to service our larger real and potential customer base. Our fixed line and call operations performed in line with expectations but sales of hardware and mobile units during Q2 and the early part of Q3 were disappointing.

“Although we expect the second half to be better than the first half as a result of the seasonal uplift and the acquisitions completed, the full year outcome will be materially behind our earlier expectations.”

20 March 2006

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Chairman's statement

Strategic Overview

The Board continued to implement the Group's strategy of growing the business organically by increasing the number of third party joint marketing relationships and thereby increasing customer numbers, whilst acquiring new products and services to cross sell to the Group's existing customer base. A number of new relationships were launched and others initiated. The Group also made four acquisitions, including one on 17 March 2006. However, our new customer acquisition performance in the second quarter of the financial year was disappointing, in particular sales of mobiles and telephone systems hardware fell short of our expectations.

Financial review

Group turnover increased by 15% to £11.5 million (2005: £10.0 million), due primarily to £1.6 million generated by Modus Telecom, acquired in August 2005. Gross profit increased by 9% from £3.5 million to £3.8 million.

Turnover from fixed line access increased 10.5% to £4.2 million (2005: £3.8 million). Growth has been generated by volume increases, with the year on year average sales price per line remaining constant. Fixed line access margin for 2006 was £0.9 million (22%) up from £0.7 million (19%) in 2005.

Despite the average selling price per minute falling by 12%, turnover from fixed line calls reduced by only 9% to £4.6m (2005: £5.1 million). Continued negotiation with network providers has enabled the Group to improve call margins during the period as call buying prices reduced by an average of 16%. Gross margin from fixed line calls was £2.3 million at 50%, up from 47% in 2005. Network services sales volumes are traditionally higher in the second half of the financial year as a consequence of seasonal business holidays in August and December of each year.

Hardware sales performance has been particularly disappointing, down 32% to £ 0.65 million (2005: £0.95 million), well below the Board's expected performance. In addition gross margin reduced to £0.3 million (47%) from £0.5 million (53%) in 2005.

The Group launched its mobile services through Vodafone in August 2005. Initial uptake by Group customers has been slower than expected but mobile packages have been relaunched in March 2006 following internal management changes.

The Board continued to invest in the Group's infrastructure, and this increase in cost base, combined with underperformance in hardware and mobile sales, adversely affected operating profit. Operating profit before goodwill amortisation was £208,000 (2005: £996,000). Fully diluted earnings per share were 0.17p (2004: 1.45p).

The business continued to generate cash before the effect of a one-off industry wide change to BT invoicing dates. This had a negative £900,000 impact on the Group's cash position. At 31 January 2006 the Group had net funds of £1.3 million (2005: net debt £2.3 million).

Joint marketing relationships

The Group has continued to target potential joint marketing partners and has launched four new arrangements in the six months ended 31 January 2006, with South East Water Telecom, Norfolk Chamber Telecom, Isle of Wight Chamber Telecom, all based in the South of England, and Newcastle United Telecom.

The Group has expanded geographically as a consequence of the new Southern based partners. Sales order performance from the new white label brands was lower than expected in the second quarter as a consequence of delays in establishing the South Region sales office.

The Board continues to negotiate with a number of potential joint marketing partners. Since 31 January 2006, agreements have been signed with the following marketing partners: UK Telecoms, Utility Aid Telecom, Charity Buying Group Telecom and Yorkshire Tourist Board Telecom.

Acquisitions

BNS completed three acquisitions during the six months ended 31 January 2006 and another on 17 March 2006.

Modus Telecom

A majority stake (78%) of Modus Telecom was acquired in August 2005 for £103,000 plus the assumption of net liabilities of £423,000. Modus operates voice and data switches together with a VoIP gateway and the Group is now able to offer services to customers using VoIP technology. The Group has completed the installation of an interconnect between Modus and BT and can now carry international traffic through Modus rather than third party switches. Modus generated revenues of £1.6 million between the date of acquisition and 31 January 2006, producing gross margin and operating profit of £318,000 and £79,000, respectively. The business has now been completely integrated into the Group.

EMC Partnership

The Group acquired 75% of EMC on 9 January 2006 for £112,000, including costs. EMC is developing white label, prepaid 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)

The Group acquired the entire share capital of BNS Mobile for £452,000 on 25 January 2006. BNS Mobile has a VoIP based switching platform which provides carrier grade wireless SMS and MMS services on a bulk scale within the UK and internationally. The main revenue streams will be generated through worldwide outbound SMS and MMS transport, premium rate SMS transactions, and content provision and message management. The Group launched a package of SMS-based services in March 2006 in order to cross sell these services to existing and new fixed line customers.

Billing Online Limited

On 17 March 2006 the Group acquired the entire share capital of Billing Online Limited and its subsidiary undertakings for an initial consideration of £425,000. Billing Online is a billing software and VoIP application development house that generates revenues from hosting telecoms services across its own IP enabled network. Billing Online will complement the switching facilities currently owned and operated by both Modus and BNS Mobile, and will allow the Group increased flexibility with regard to VoIP applications.

Current trading and outlook

The performance of the Group since 31 January 2006 has been disappointing. However, the management team has moved quickly to address the issues facing the business. In the short term this will result in the Group materially underperforming against current market expectations for 2006.

The Board believes that revenues from both the new acquisitions and the new joint marketing relationships will contribute significantly to earnings in 2007 and beyond.

Graham Wilson
Chairman

BNS Telecom Group plc **Group profit and loss account**

	Notes	Unaudited 1 August to 31 January 2006 £'000	Unaudited 1 August to 31 January 2005 £'000	Unaudited Year ended 31 July 2005 £'000
<i>Turnover</i>	2	11,495	10,004	19,762
Cost of sales		(7,705)	(6,539)	(12,787)
<i>Gross profit</i>		3,790	3,465	6,975
Administrative expenses		(3,602)	(2,469)	(5,634)
Other operating income		10	-	10
		(3,592)	(2,469)	(5,624)
<i>Operating profit</i>		198	996	1,351
Bank and other interest receivable		42	-	13
Interest payable and similar charges		(108)	(83)	(133)
		(66)	(83)	(120)
<i>Profit on ordinary activities before taxation</i>		132	913	1,231

Tax on profit on ordinary activities	3	(41)	(283)	(385)
<i>Profit on ordinary activities after taxation</i>		91	630	846
Minority interest		(12)	-	-
<i>Profit attributable to the members of the parent company</i>		79	630	846
Dividends		-	-	-
<i>Retained profit for the period</i>		79	630	846
<i>Actual earnings per share</i>				
Basic earnings per share (pence)	4	0.17p	1.45p	1.95p
Diluted earnings per share (pence)	4	0.17p	1.45p	1.94p

Group balance sheet

	Notes	Unaudited As at 31 January 2006 £'000	Unaudited As at 31 January 2005 £'000	Unaudited As at 31 July 2005 £'000
<i>Fixed assets</i>				
Tangible assets		3,897	3,186	3,724
Intangible assets		1,054	-	-
		4,951	3,186	3,724
<i>Current assets</i>				
Stocks		218	241	190
Debtors		2,229	4,036	3,037
Cash at bank and in hand		3,626	36	1,642
		6,073	4,313	4,869

Creditors: amounts falling due within one year		(6,011)	(5,486)	(6,465)
Net current assets/(liabilities)		<u>62</u>	<u>(1,173)</u>	<u>(1,596)</u>
Total assets less current assets		5,013	2,013	2,128
Creditors: amounts falling due after one year		(1,363)	(1,423)	(1,525)
Provisions for liabilities and charges		<u>(41)</u>	<u>(35)</u>	<u>(42)</u>
		<u>3,609</u>	<u>555</u>	<u>561</u>
Capital and reserves				
Called up share capital	1	5,012	4,331	4,331
Share premium account		2,250	-	-
Profit and loss account		79	-	-
Revaluation reserve		-	-	-
Other reserves		(3,769)	(3,776)	(3,770)
Minority interest		37	-	-
Equity shareholders' funds		<u>3,609</u>	<u>555</u>	<u>561</u>

Group statement of cash flows

	Notes	Unaudited 1 August to 31 January 2006 £'000	Unaudited 1 August to 31 January 2005 £'000	Unaudited Year ended 31 July 2005 £'000
Net cash inflow/(outflow) from operating activities	6	(299)	2,166	3,293
Returns on investments and servicing of finance				
Interest received		42	-	13
Interest paid		(108)	(83)	(133)
Net cash outflow from returns on investments and servicing of finance		<u>(66)</u>	<u>(83)</u>	<u>(120)</u>
Taxation				

Corporation tax paid	-	(140)	(66)
<i>Capital expenditure and financial investment</i>			
Payments to acquire tangible fixed assets	(325)	(1,030)	(1,289)
Payments to acquire intangible assets	(50)	-	-
Receipts from sales of tangible fixed assets	84	-	162
Movement on loan to related company	799	(1,557)	(684)
	508	(2,587)	(1,811)
<i>Acquisitions and disposals</i>			
Purchase of subsidiary undertakings	(467)	-	-
Cash and cash equivalents acquired	95	-	-
<i>Net cash outflow on acquisitions and disposals</i>	(372)	-	-
<i>Net cash inflow/(outflow) from capital expenditure and financial investment</i>	136	(2,587)	(1,811)
<i>Equity dividends paid</i>	-	-	-
<i>Net cash inflow/(outflow) before financing</i>	(229)	(644)	1,296
<i>Financing</i>			
Issue of ordinary share capital (net of expenses)	2,732	-	-
New long term bank loan	1,805	800	800
Repayment of long term bank loan	(1,834)	(42)	(103)
Capital element of hire purchase contracts	(360)	(251)	(615)
<i>Net cash inflow/(outflow) from financing</i>	2,343	507	82
<i>Increase/(decrease) in cash in period</i>	7	2,114	1,378

Notes

1. Basis of preparation and consolidation

The Board approved the interim accounts for the period 1 August 2005 to 31 January 2006 on 19 March 2006. The interim report is not audited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The interim accounts have been prepared using accounting policies consistent with those used in preparing the accounts of BNS Telecom Limited for the year ended 31 July 2005, together with appropriate additional policies reflecting changes in the period.

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 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.

This merger has been accounted for using the merger accounting principles set out in Financial Reporting Standard 6. Accordingly the financial information for the prior periods has been restated to reflect the position as if the group had legally existed for the past two financial years.

The consolidated financial information includes the results of the Company and its subsidiary undertakings from the date of acquisition using the acquisition method of accounting. Goodwill arising on consolidation, representing the excess of the fair value of consideration given over the fair value of the acquired net assets, is capitalised in the consolidated balance sheet and amortised over its estimated economic life of 20 years.

Subscriber acquisition costs in respect of mobile contracts are deferred in the balance sheet as an intangible fixed asset and are amortised over the period expected to benefit from the contract. Included in intangible assets are costs relating to the acquisition of new customer mobile phone contracts that are charged against profits over the term of the contract. The balance of uncharged costs at 31 January 2006 is £50,515 (January 2005 and July 2005: Nil).

2. Group turnover and segmental analysis

Turnover represents the amount derived from the provision of goods and services stated net of value added tax. Turnover, profit before tax and net assets are all attributable to one continuing activity, being the supply and maintenance of telecommunication services and systems to customers in the United Kingdom.

3. Taxation

Tax on profit on ordinary activities for the period 1 August 2005 to 31 January 2006 and the comparative period 1 August 2004 to 31 January 2005 have been calculated using an effective rate of tax of 31%.

4. Earnings per share

As set out in Note 1 the Group has accounted for the restructuring of the Group's share capital using the merger accounting principles set out in Financial Reporting Standard 6. Consequently both basic and diluted earnings per share have been calculated on the basis that the share capital restructuring was effective on 1 August 2004.

	Unaudited 1 August to 31 January 2006	Unaudited 1 August to 31 January 2005	Unaudited Year ended 31 July 2005
Basic earnings per share			
<i>Profit after tax (£'000)</i>	79	630	846
<i>Number of shares</i>	45,687,299	43,312,500	43,312,500
Basic earnings per share (pence)	0.17p	1.45p	1.95p
Diluted earnings per share			
<i>Profit after tax (£'000)</i>	79	630	846
<i>Number of shares</i>	47,239,440	43,715,189	43,715,189
Diluted earnings per share (pence)	0.17p	1.45p	1.94p

5. Acquisitions

On 26 August 2005 BNS Telecom Limited acquired 78% of the issued share capital of Modus Telecom Limited 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 £526,000.

On 9 January 2006 BNS Telecom Limited acquired 75% of the issued share capital of EMC Partnership Limited for total consideration, including costs, of £112,000. A preliminary assessment of the fair value of the net assets acquired give rise to goodwill of £37,000.

On 30 January 2006 the Company acquired the share capital of Telecom Asia Limited (renamed BNS Mobile Limited) for total consideration, including costs, of £452,000, comprising cash of £252,000 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 £452,000.

6. Net cash inflow from operating activities

	Unaudited 1 August to 31 January 2006 £'000	Unaudited 1 August to 31 January 2005 £'000	Unaudited Year ended 31 July 2005 £'000
Operating profit	198	996	1,351
Depreciation of tangible assets	326	217	465

Loss on disposal of tangible fixed assets	15	-	28
Goodwill amortisation	10	-	-
(Increase)/decrease in stocks	(28)	(52)	(2)
Decrease/(increase) in debtors	72	1,194	994
(Decrease)/Increase in creditors	(892)	(189)	457
Net cash inflow/(outflow) from operating activities	(299)	2,166	3,293

7. Reconciliation of net cash flow to movement in net debt

	Unaudited 1 August to 31 January 2006 £'000	Unaudited 1 August to 31 January 2005 £'000	Unaudited Year ended 31 July 2005 £'000
Cash flows			
Increase/(decrease) in cash	2,114	(137)	1,378
Cash outflow/(inflow) from movement in debt and lease financing	389	(507)	(82)
Changes in net debt resulting from cash flow	2,503	(644)	1,296
Other non cash changes			
New finance leases introduced	(140)	(247)	(963)
Movement in net debt	2,363	(891)	333
Net debt at 1 August	(1,095)	(1,428)	(1,428)
Net funds/(debt)at period end	1,268	(2,319)	(1,095)

Analysis of net debt

	Unaudited At 1 August 2005 £'000	Unaudited Cash flow £'000	Unaudited Other non cash changes £'000	Unaudited At 31 January 2006 £'000
Cash at bank and in hand	1,642	1,984	-	3,626
Bank overdrafts	(508)	130	-	(378)
Cash	1,134	2,114	-	3,248
Finance leases and hire purchase contracts	(1,180)	360	(140)	(960)
Loans due within one year	(176)	29	-	(147)
Loans due after one year	(873)	-	-	(873)
Net(debt)/funds	(1,095)	2,503	(140)	1,268

8. Subsequent Events

On 17 March 2006 BNS Telecom Limited acquired 100% of the issued share capital of Billing Online Limited for initial consideration of £425,000.

9. Interim report

A copy of the interim report will be distributed to shareholders shortly and will be available from the company's registered office in the week commencing 3 April 2006.