



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

Contents

01	Highlights
02	Chairman's statement
04	Business review
08	Directors
09	Directors' report
11	Statement of Directors' responsibilities
12	Director's remuneration report
14	Corporate governance
16	Independent auditors' report
17	Group profit and loss
18	Group statement of total recognised gains and losses
18	Group note of historical cost profits and losses
19	Group balance sheet
20	Company balance sheet
21	Group cash flow statement
22	Notes to the financial statements
40	Directory

Highlights

- Turnover up 32 per cent. to £34.91 million (2006: £26.47 million)
- Business Reseller Division up 29 per cent. to £26.20 million (2006: £20.37 million) including contribution of £3.45 million from 3g
- Network Services Division £8.70 million (2006: £6.09 million)
- Business Reseller Division operating profits up 198 per cent. to £1.52 million (2006: £0.51 million)
- Network Services Division closed on 29 October 2007
- Group loss per share of 7.01p (2006: earnings per share 0.74p)
- Customer base up 7 per cent. to 7,013 (2006: 6,250), average monthly churn down to 1.5 per cent. (2006: 1.6 per cent.)
- Acquisition of 3g – completed in March 2007 and now successfully integrated
- Long term service provider contract signed with Vodafone UK in March 2007
- Successful development of Hosted IP Telephony services

Chairman's statement

Overview

The Group's core Business Reseller Division, including 3g Comms ("3g") acquired during the second half of the financial year, performed well and showed good organic growth in sales and operating profit. However, the Network Services Division, which was the subject of a detailed and extensive strategic review initiated on 14 June 2007, was closed on 29 October 2007, the Board having explored all options for this division. Strenuous efforts were made to dispose of the Network Services Division over recent months and whilst there was interest from a number of potential acquirers, the Board concluded that the best option was the rapid closure of the Division.

The Business Reseller Division increased sales from £20.37 million in 2006 to £26.20 million in 2007, including a revenue contribution of £3.45 million from 3g in the four months under BNS ownership. Operating profits for this enlarged division grew by 210 per cent. to £1.59 million before goodwill charges. A new service provider contract with Vodafone was signed and most significantly the Group started to market its newly developed Hosted IP Telephony service.

The Board believes the development of its IP Telephony service will result in a transformation of BNS from "reseller" in 2006 to "switched reseller" and now to "IP carrier". This will enable BNS to exploit the growing demand from SMEs for VoIP products and services.

The Network Services Division consisted of four businesses acquired over the last two years. The expected revenue growth and operational leverage did not materialise and all the businesses underperformed. Following the strategic review the Board completed the Division's closure at 29 October 2007. Consequently the Network Services Division reported a heavy level of losses and impairment charges.

Separately, the Group completed a sale and leaseback on its head office premises at Prudhoe in Northumberland generating a one-off cash inflow of £4.79 million including a profit of £1.02 million.

Financials

Group turnover increased by 32 per cent to £34.91 million for the year to 31 July 2007. This largely arose as a result of a 29 per cent. rise in sales in the enlarged Business Reseller Division to £26.20 million (2006: £20.37 million), including a four month contribution of £3.45 million from 3g. Excluding 3g, the Business reseller Division increased turnover by 12 per cent. to £22.75 million (2006: £20.37 million). The Network Services Division, which has now been discontinued, contributed turnover of £8.70 million (2006: £6.09 million).

The core Business Reseller Division substantially increased operating profit to £1.69 million (2006: £0.55 million) before goodwill charges of £0.06 million (2006: £nil) and operating exceptional items of £0.12 million (2006: £0.04 million).

The total operating loss in the discontinued Network Services Division was £5.97 million (2006: profit £0.03 million). This total loss comprised trading losses in the order of £1.50 million, balance sheet write-offs (including bad debt provisions) of approximately £2.8 million and non cash costs relating to goodwill and fixed asset impairment of some £1.70 million.

Group operating loss before goodwill charges and exceptional items was £1.77 million (2006: profit £0.64 million). Total Group operating loss was £4.45 million (2006: profit £0.54 million).

During the year, the Group completed a sale and lease back of its freehold head office facilities for £4.79 million in cash, giving rise to a profit on disposal of £1.02 million. This reduced the loss on ordinary activities before interest and taxation to £3.43 million (2006: profit £0.54 million).

Net interest payable in the year increased to £0.30 million (2006: £0.07 million) as a result of increased interest charges associated with the debt taken on to finance the development of the head office building and the acquisition of 3g. This resulted in a pre tax loss for the year of £3.73 million (2006: profit £0.47 million).

The Group had a tax credit in the period of £0.20 million (2006: charge £0.22 million) as a result of the utilisation of tax losses arising during the year in the Network Services Division. The credit has also been increased by an overprovision in 2006 and a release of a deferred tax liability during the year.

Loss per share for the year was 7.01p (2006: earnings of 0.47p) reflecting the operating loss in the Network Services Division. Adjusted Basic Loss per share excluding the after tax effect of goodwill charges, share based payment charges (note 24) and other exceptional items (as detailed in note 6) was 3.71p (2006: earnings of 0.61p).

The Board is not proposing the payment of a final dividend (2006: 0.5p). It is the intention of the Board to resume dividend payments as soon as future profitability permits.

“The Directors believe that the outlook for the Group is now considerably more favourable and anticipate strong cash generation in the current financial year.”

The Group experienced a net operating cash outflow of £0.88 million during the year. Of the outflow, £2.89 million reflects the funding of working capital in the Network Services business. This was partially offset by a positive cash inflow from operating activities in the Business Reseller Division and £4.79 million proceeds from the sale and leaseback of the Group's head office property. The proceeds were used to repay an on-demand loan of £3.5 million taken out specially to fund development of the head office property. The Group subsequently financed the £4.85 million acquisition of 3g through a new banking facility.

At the 31 July 2007, the Group had net debt of £2.75 million (2006: debt £0.73 million).

On 30 March 2007, the Group completed the acquisition of the entire share capital of 3g Comms Limited and 3g Landline Limited (together '3g') for a total cash consideration of £4.85 million. The acquisition provided the Group with an immediate increase in scale in the mobile market as well as potential cross selling opportunities. It also provided the Group with a significant market presence in the Birmingham area, allowing cross-selling opportunities for other BNS fixed line products to the 3g customer base. At the 31 July 2007 3g had 13,306 mobile subscribers and 321 fixed line customers.

Earlier in the year, BNS completed the acquisition of 70 per cent. of the share capital of Citygate Telecom Limited on 18 October 2006 for £100,000. However, this operation was subsequently closed, being part of the discontinued Network Services Division.

The Group invested £1.7 million in tangible fixed assets during the year. Of this total £0.95 million was invested to complete the head office building and £0.2 million was invested in the Group's VoIP platform. Total expenditure on the head office buildings amounted to £2.7 million, of which £1.77 million was disclosed as assets in course of construction at the prior year end. The £1 million book value of the original head office building was also disposed of as part of the sale and leaseback transaction.

Capital expenditure in the second half of the year was much reduced as anticipated at the half year stage.

Directors and Staff

During the year there have been several changes to the Board. On 23 May 2007, it was announced that Mark Stewart, Director in charge of Network Services Division, had resigned from the Board and he left the Group with immediate effect.

On 7 September 2007, Andrew Goldwater was appointed Group Finance Director of the Group, replacing David Horrocks who left BNS at that time. Andrew Goldwater is 33 years old and joined BNS in March 2007 having spent eight years with Ernst & Young where he reached senior manager level.

The Directors recognise the efforts of our management and staff in achieving robust results in the Direct Reseller Business, including the new members of the BNS team at 3g, and thank members of staff for their diligence and hard work.

Outlook

Having integrated 3g into the Group and successfully launched the new IP based telephony solutions to the market, BNS' strategy during 2008 is organic growth through the cross-selling of products to its enlarged customer base whilst also continually looking to add new customers.

The development of the suite of IP Telephony solutions over the last two years has given the Group an excellent platform for profitable growth. The sales order intake from the IP-based products reported at the half year has started to be converted to cash. The Group has now secured a total contracted value of over £4m which includes a significant element of deferred income.

The Directors believe that the outlook for the Group is now considerably more favourable and anticipate strong cash generation in the current financial year.

Graham Wilson

Chairman
27 November 2007

Business review

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

BNS provides 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, the Group has increased its mobile communications volumes through the acquisition of 3g and added VoIP services to its product portfolio to broaden its ability to service customers and provide for the emerging demand in the SME sector for IP telephony.

The Business Reseller Division, comprising direct selling operations, contracts directly with SME and corporate customers and manages the white label joint marketing relationships.

The recently acquired 3g has a service provider agreement with Vodafone UK, providing mobile voice and data solutions to 13,000 subscribers, primarily in the SME market. The business also sells a small amount of fixed line telecoms.

The Network Services Division comprised the four acquisitions completed in 2006, together with Citygate, acquired in this year. Following the detailed review of the Division the Group has now exited from the main revenue generating streams: card services and wholesale international telecommunication services. The remaining component of the Division, the Network Operation Centre, has been restructured and incorporated into the Business Reseller Division and will continue to provide the technical support for the Group's IP based products and development activities.

Business Reseller Division

The Business Reseller Division offers a "one-stop shop" telecoms service to the SME and corporate markets in the UK. Through the direct sales channel BNS contracts directly with the end user for fixed line access and calls, hardware supply, hardware maintenance, mobile telecoms access and calls and VoIP services. Hardware is typically supplied to a finance company who leases the equipment to an end user. The services are offered to customers as packages tailored to the needs of an individual business.

The Hosted IP Telephony solution was launched to the SME and corporate market in the second quarter of the financial year and to date the Group has a total contracted value of over £4 million. These contracts are typically for three, five or seven years. The Board expects the Hosted IP product suite to provide the Group with a highly visible, stable revenue stream as deferred income is released to profits over the life of contracts.

The Business Reseller Division uses a number of marketing approaches including white label branding from the joint marketing partners to approach potential customers. Approximately 74.5 per cent. of BNS customers have been sourced through joint marketing brands (2006: approximately 72 per cent.). All customers contract directly with BNS, allowing BNS to manage the targeting of new business and the ongoing customer relationships.

The strategy is to broaden the Business Reseller Division's geographical base through regional and national partner brands. New partners launched in the year include Derbyshire Chamber Telecom, Bedford and Luton Chamber Telecom and Barnsley Chamber Telecom. In addition, BNS has recently re-signed several of its existing national partners on two and three year contracts.

The South Region sales team continues to support Southern England based partners and with the growing Birmingham based sales team, the management believe it now has the broad geographical coverage of Central England to add to the strong presence in the North of England and Scotland. BNS will continue to develop new partners in 2008 and will flex the sales force as demand requires.

“The recently acquired 3g has a service provider agreement with Vodafone UK, providing mobile voice and data solutions to 13,000 subscribers, primarily in the SME market.”

On a like for like basis the customer base has grown by approximately 6.6 per cent. to 7,023 customers at 31 July 2007 (2006: 6,250). In addition to this, 3g had 1,875 customers at 31 July 2007.

The Group has continued to reduce customer churn, through both broadening the range of products taken by customers and improving the customer services systems. Average monthly churn in the year reduced to approximately 1.5 per cent. (2006: approximately 1.6 per cent).

Over 86 per cent. of the customer base takes more than one service from the Group. ARPU, (average revenue per user) per month, has fallen by approximately 9.3 per cent. over the year to £254 (2006: £280) largely reflecting the continued price competition in the telecoms market. All current customers are now committed to spend a minimum of £25 per month resulting in the closure of 231 uneconomic customer accounts during the year.

The Business Reseller Division is split into four main revenue streams:

Fixed Line		
	2007	2006
Turnover (£'m)	8.67	8.30
Lines volume (No.)	44,467	43,908

Fixed lines connected by the Group increased by approximately 1.3 per cent. to 44,467 and turnover increased by approximately 1.2 per cent. to £8.57 million. Pricing has remained broadly neutral compared to 2006.

This revenue stream provides wholesale line rental (WLR) to customers at a discount to BT Retail standard pricing. Discounts are based on contract terms of one, three or five year duration.

At 31 July 2007, approximately 45.0 per cent. (2006: approximately 38.5 per cent.) of customers were committed to one year contracts, approximately 16.0 per cent. (2006: approximately 12.5 per cent.) of customers were committed to three year contracts and approximately 39.0 per cent. (2006: approximately 49.0 per cent.) were committed to five year contracts. As anticipated, customers continue to move to contracts of shorter duration, reflecting competitive conditions in the fixed line market.

The Group continues to resell broadband where requested by customers, but structural changes in the broadband market in 2006 made significant investment by BNS in the development of broadband packages unattractive. BNS expects its broadband revenues to increase during 2008 as part of the IPTelephony product offering.

Calls Traffic (CPS)

	2007	2006
Turnover (£'m)	9.30	9.36

This revenue stream provides carrier pre select (CPS) calls traffic over fixed lines from a range of suppliers including BT and Thus. The Group has continued to experience pricing pressure in a very competitive market. The Group continues to negotiate with suppliers to reduce buy in costs in order to protect margins. Average selling prices during 2007 have reduced by approximately 5.6 per cent. compared to 2006.

All current CPS customers are contracted for one, three or five year terms. The Group has continued to increase the length of contracts. At 31 July 2007, no (2006: approximately 53.8 per cent.) customers were on contracts with a 30 day notice period, approximately 68 per cent. (2006: approximately 31.3 per cent.) of customers were on one year contracts, approximately 22.0 per cent. (2006: approximately 8.2 per cent.) of customers were on three year contracts and approximately 10 per cent. (2006: approximately 6.5 per cent.) were on five year contracts.

Hardware supply and maintenance

	2007	2006
Turnover (£'m)	3.35	2.28

This revenue stream supplies and maintains equipment from a number of suppliers including LG, Samsung and Cisco. Following disappointing sales performance in the first half of 2006, the Group renewed its hardware and maintenance sales pitch in the second half of the 2006 financial year and sales have shown a sustained and significant improvement.

The improved sales performance also generated better margins compared with 2006. BNS is particularly pleased to see such a resilient sales performance at a time when many customers who previously opted for traditional fixed line telephone hardware may be considering hosted IP telephony based solutions in its place.

As at 31 July 2007, 2,388 customers (2006: 2,251) had maintenance contracts with the Business Reseller Division.

Mobile

	2007	2006
Turnover (£'m)	4.86	0.43
Subscribers (No.)	16,341	1,403

The Vodafone UK service provider contract win was secured in March 2007. This enables the Group to offer BNS branded products direct to customers. These products can be tailored in a more interesting and customer centric way whilst generating opportunities for improved margins. The announcement of service provider status was closely followed by the acquisition of 3g which immediately added 12,982 mobile SIMs to the existing subscriber base. This customer base had grown to 13,306 by 31 July 2007 and is in addition to the 3,035 subscribers within the BNS base. 3g has integrated well into the Group and continues to have a highly productive working relationship with Vodafone. This was demonstrated recently when BNS was appointed a Vodafone Premier Partner, one of only five in the UK.

These developments have been a significant step in the Group's strategy to deliver a converged fixed and mobile solution and the Directors believe BNS' credibility in the mobile sector has been significantly boosted as a result.

“BNS has developed a suite of IP Telephony products relevant to all sizes of business from SMEs to the large corporates.”

Network Services Division

	2007	2006
Turnover (£'m)	8.7	6.09
Gross profit (£'m)	0.09	1.14
Gross margin (%)	1.0%	18.7%

The Network Services Division comprised three revenue streams: International Telecommunications Services, Card Services and SMS Mobile Services.

As announced in June 2007, the initial review revealed a significant underperformance during the third quarter and an over ambitious expectation for the final quarter of the financial year. The poor trading performance was heavily influenced by a customer base across the division which yielded very low margins.

Corrective actions taken to address the issues identified to reduce continuing losses resulted in substantial exceptional costs being incurred during the final quarter of the year under review. The cost of these actions, being asset impairment, increased debtor provisioning and costs of contract termination, are reflected within discontinued operations in the results.

The remaining component of the division, the Network Operation Centre, has been restructured and incorporated into the Business Reseller Division and will continue to provide the technical support for the Group's IP based products and development activities.

Product Development

BNS has developed a suite of IP Telephony products relevant to all sizes of business from SMEs to the large corporates. These products include a state of the art carrier grade IP Centrex that is sold on a 'per seat' basis. BNS has also now launched the BNS Smart Box to provide the benefits of IP Telephony without replacing the traditional telephone system.

BNS launched its first fixed and mobile converged telecoms product, WiDial in April 2007 and is proving a positive factor in generating IP Telephony orders. This is a low cost virtual mobile network using VoIP and Wi-Fi technology to enable business users to connect to the Hosted IP Telephony platform and to gain access to other users and features using mobile phone devices without connecting to GSM providers.

The Group has also now launched an advanced call recording system enabling the recording of inbound and outbound calls.

It is expected that this new product portfolio will have an important influence on the future growth of BNS.

International Financial Reporting Standards (“IFRS”)

The Group is set to report under IFRS for the year to 31 July 2008. The interim results for the 26 weeks ending 31 January 2008 will be the first results to be affected. Currently the Group is assessing the potential impact but does not anticipate any significant changes in results arising from changes in accounting policies. The move to IFRS will not change how the Group is managed and will have no impact on cash flow.

Directors

Graham Wilson

Chairman and Non-executive Director

In 1989 Graham Wilson led the £7m management buy-out of Parkdean Leisure and subsequently floated it 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 £39m 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 2006 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, Premier Direct Group plc and non-executive director of Goals Soccer Centres plc. Graham joined BNS in October 2004.

Garry Moat

Chief Executive

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

Andrew Goldwater

Finance Director

Andrew Goldwater joined BNS as Group Financial Controller in March 2007. In September 2007 Andrew was appointed Group Finance Director. He is a member of the Institute of Chartered Accountants in England and Wales and spent eight years with Ernst & Young LLP, rising to senior manager level. His current responsibilities include finance, human resources, health and safety, legal matters and company secretarial.

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 at which point he retired from the business. Barry continues to be actively involved in property investment and development.

Directors' report

The Directors present their report and audited Group financial statements for the year ended 31 July 2007.

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 loss for the year, after taxation, amounted to £3,512,000 (2006: profit of £226,000). The Directors do not recommend the payment of a dividend for the year ended 31 July 2007 (2006: 0.5p per share).

Review of the business

A detailed review of the business during the year and likely future developments is presented in the Chairman's statement on pages 2 to 3 and in the Business Review on pages 4 to 8. A description of the Group's funding and risk management policies can be found in note 20.

Events since the balance sheet date

Following the strategic review initiated in June 2007, the Board completed the closure of its Network Services Division on 29 October 2007. The results of the Network Services Division are presented as discontinued operations within the profit and loss account. Please refer to the Chairman's statement on pages 2 to 3 and the Business Review on pages 4 to 8 for further details.

Political and charitable donations

The Group made no political donations and made donations of £3,000 (2006: £4,000) to various charities in the year. The charitable donations were paid to various local and national charities including the Game Conservancy Trust.

Major interests in shares

At 25 October 2007, the Company had been notified of the following shareholdings representing 3% or more of the Company's ordinary share capital:

	Number of shares held	% of issued share capital
Mr G G Moat	30,021,217	59.9
Credit Suisse Securities (Europe) Limited	4,688,519	9.4
ABN AMRO Bank NV London	2,750,000	5.5
Mr R J Horton	1,731,162	3.5

Supplier payment policy and practice

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

At 31 July 2007, the Group had an average of 39 days' purchases outstanding in trade creditors (2006: 47).

Annual general meeting

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

Resolution 1 is to receive and adopt the Director's report and audited financial statements.

Resolutions 2 and 3 deal with the re-election of Directors. As Andrew Goldwater has been appointed as a Director since the last Annual General Meeting he is required to put himself forward for re-election by the shareholders at this meeting. Graham Wilson is retiring by rotation under the provisions of the Articles of Association, but is putting himself forward for re-election. Brief biographies of these directors are set out on page 8 of the annual report.

Resolution 4 is to reappoint Ernst & Young LLP as auditors. Resolution 5 authorises the directors to approve their remuneration. Resolution 6 is to approve the Directors' remuneration report.

There are two additional resolutions which are being proposed at the Annual General Meeting. Resolution 7 is to disapply statutory pre-emption rights on the allotment of shares for cash in certain limited circumstances. Resolution 8 authorises the Company to purchase its own shares. This authority gives the Company greater flexibility in managing its capital resources. The directors have no specific intention of using this authority and would do so only when, in the light of market conditions, they believe that the effect of such purchases would be to increase earnings per share and that the purchases were in the best interests of shareholders generally. Any shares purchased under this authority may be cancelled (in which case the number of shares in issue will be reduced accordingly) or may be held in treasury so as to be sold at a later date subject to the restrictions set out in resolution 8 or its equivalent in force at the time. Resolution 8 specifies the maximum number of shares which may be purchased (representing 10% of the Company's issued share capital at 26 November 2007), the minimum and maximum prices at which they may be bought and when the authority will expire. This limit is in line with investor protection guidelines. The maximum price at which the shares may be purchased is 5% above the average of the middle market values of those shares for the five business days before the purchase is made.

Auditors

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

Directors' statement as to disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 8. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

G G Moat

Chief Executive
27 November 2007

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the Group and the Company 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Director's remuneration report

Information not requiring audit

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

Remuneration Committee and advisers

The Remuneration Committee is chaired by Barry Moat and its other member is 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. No bonuses were paid in 2007 or 2006.

Executive share options:

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

Savings related share option scheme:

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

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

Defined contributions pension schemes:

The Company paid contributions of 6% of basic salary into a personal defined contribution pension scheme, until his resignation on 6 September 2007, on behalf of David Horrocks. The Company also paid 5% of basic salary into a personal defined contribution pension scheme on behalf of Mark Stewart between 30 November 2006 and 23 May 2007.

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 (audited)

The remuneration of the Directors is as follows:

	Basic salary and fees £000	Compensation for loss of office £000	Benefits in kind ⁽¹⁾ £000	Total 2007 £000	Total 2006 ⁽⁴⁾ £000	Pension contributions 2007 £000	Pension contributions 2006 £000
Executive Directors							
Garry Moat ⁽¹⁾⁽²⁾	159	–	9	168	8	–	–
David Horrocks ⁽¹⁾⁽³⁾	124	–	14	138	127	7	4
Mark Stewart ⁽¹⁾⁽⁴⁾	88	17	–	105	–	3	–
Non-executive Directors							
Graham Wilson	40	–	–	40	38	–	–
Barry Moat	32	–	–	32	31	–	–
	443	17	23	483	204	10	4

(1) The remuneration packages of each executive Director includes 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 prior year. This salary was waived.

(3) Resigned 6 September 2007.

(4) Appointed 7 August 2006, resigned 23 May 2007.

Interests in options

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

	Exercise price	At 1 August 2006 No.	Granted during the year No.	Exercised during the year No.	At 31 July 2007 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

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

Corporate governance

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

The workings of the Board and its Committees

The Board of Directors

The Board currently comprises the Non-Executive Chairman, the Chief Executive, the Finance Director and an independent non-executive Director. The biographies of each Director appear on page 9.

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

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the financial statements is given on page 11.

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

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

Remuneration Committee

The Remuneration Committee Chairman is Barry Moat and its other member is 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 12 and 13.

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 Andrew Goldwater (previously David Horrocks until his resignation on 6 September 2007).

Nominations Committee

The Company has appointed a Nominations Committee comprising the two non-executive Directors and Garry Moat, with 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.

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 Business Review on pages 2 to 8 include a detailed review of the business and planned future developments.

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

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

Internal control

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

Key elements of the Group's internal controls are:

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

Going concern

After making due enquiries, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason the going concern basis continues to be adopted in preparing the financial statements.

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 2007 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 30. 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' responsibilities 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) are 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the 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 Business Review that is cross referred from the Review of the Business section of the Directors' Report.

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Directors' Remuneration Report, Corporate Governance, Directors Report and the Business 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 2007 and of the Group's loss 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
27 November 2007

Group profit and loss

for the year ended 31 July 2007

	Notes	2007 £000	Restated (note 1) 2006 £000
Turnover			
Continuing operations		22,752	20,373
Acquisitions		3,449	–
		26,201	20,373
Discontinued operations		8,710	6,092
Total Group turnover	2	34,911	26,465
Cost of sales	3	(25,461)	(17,880)
Gross profit		9,450	8,585
Net operating expenses		(13,896)	(8,044)
Group operating (loss)/profit	4	(4,446)	541
Continuing operations		1,305	511
Acquisitions		219	–
		1,524	511
Discontinued operations		(5,970)	30
Total Group operating (loss)/profit	4	(4,446)	541
Analysed as:			
Operating (loss)/profit before goodwill charges, operating exceptional items and share based payments charges		(1,775)	638
Goodwill charges and exceptional items	6	(2,619)	(55)
FRS 20 Share based payment charge	24	(52)	(42)
Total Group operating (loss)/profit	4	(4,446)	541
Continuing operations: Profit on disposal of tangible fixed assets	6	1,018	–
(Loss)/profit on ordinary activities before interest and taxation		(3,428)	541
Bank and other interest receivable		21	89
Interest payable and similar charges	9	(324)	(161)
(Loss)/profit on ordinary activities before taxation		(3,731)	469
Tax credit/(charge) on (loss)/profit on ordinary activities	10	196	(220)
(Loss)/profit on ordinary activities after taxation		(3,535)	249
Minority interests		23	(23)
(Loss)/profit for the financial year		(3,512)	226
		p	p
Earning per ordinary share			
Basic	12	(7.01)	0.47
Adjusted	12	(3.71)	0.61
Diluted	12	(7.01)	0.46

Group statement of total recognised gains and losses

for the year ended 31 July 2007

	2007 £000	Restated (note 1) 2006 £000
(Loss)/profit for the financial year	(3,512)	226
Prior year adjustments (as explained in note 1)	(143)	
Total gains and losses recognised since last annual report	(3,655)	

Group note of historical cost profits and losses

for the year ended 31 July 2007

	2007 £000	Restated (note 1) 2006 £000
Reported (loss)/profit on ordinary activities before taxation	(3,731)	597
Realisation of property revaluation gains of previous years	169	58
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	-	7
Historical cost (loss)/profit on ordinary activities before taxation	(3,562)	662
Historical cost (loss)/profit for the year retained after taxation	(3,343)	419

Group balance sheet

at 31 July 2007

	Notes	2007 £000	Restated (note 1) 2006 £000
Fixed assets			
Intangible assets	13	4,906	2,044
Tangible assets	14	2,201	5,824
		7,107	7,868
Current assets			
Stocks	16	316	270
Debtors	17	4,227	3,877
Cash at bank and in hand		2,148	2,614
		6,691	6,761
Creditors: amounts falling due within one year	18	(10,284)	(10,515)
Net current liabilities		(3,593)	(3,754)
Total assets less current liabilities		3,514	4,114
Creditors: amounts falling due after one year	19	(3,340)	(300)
Provisions for liabilities	22	(130)	(36)
		44	3,778
Capital and reserves			
Called up share capital	23	5,012	5,012
Share premium account	25	2,245	2,245
Profit and loss account	25	(3,274)	268
Other reserves	25	(3,939)	(3,770)
Total shareholders' funds	25	44	3,755
Equity minority interests		–	23
		44	3,778

These financial statements have been approved by the Board of Directors on 27 November 2007 and signed on their behalf by:

G G Moat

Chief Executive

A G Goldwater

Finance Director

Company balance sheet

at 31 July 2007

	Notes	2007 £000	Restated (note 1) 2006 £000
Fixed assets			
Investments	15	11,848	7,476
		11,848	7,476
Current assets			
Debtors	17	–	2,583
		–	2,583
Creditors: amounts falling due within one year	18	(1,987)	(72)
Net current (liabilities)/assets		(1,987)	2,511
Total assets less current liabilities		9,861	9,987
Capital and reserves			
Called up share capital	23	5,012	5,012
Share premium account	25	2,245	2,245
Profit and loss account	25	(65)	61
Other reserves	25	2,669	2,669
Equity shareholders' funds	25	9,861	9,987

G G Moat

Chief Executive

A G Goldwater

Finance Director
27 November 2007

Group cash flow statement

for the year ended 31 July 2007

	Notes	2007 £000	2006 £000
Net cash (outflow)/inflow from operating activities	26(a)	(884)	423
Returns on investments and servicing of finance			
Interest received		21	89
Interest paid		(320)	(161)
Loan issue costs		(47)	–
Net cash outflow from returns on investments and servicing of finance		(346)	(72)
Taxation			
Corporation tax paid		(226)	(332)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(1,443)	(2,682)
Payments to acquire intangible assets		(159)	–
Receipts from sales of tangible fixed assets		4,804	522
Receipt from loan made to related company		–	799
Net cash inflow/(outflow) from capital expenditure and financial investment		3,202	(1,361)
Acquisitions and disposals			
Purchase of subsidiary undertakings	15	(4,906)	(944)
Cash and cash equivalents acquired		1,599	173
Net cash outflow on acquisitions and disposals		(3,307)	(771)
Equity dividends paid	11	(251)	–
Net cash outflow before financing		(1,812)	(2,113)
Financing			
Issue of ordinary share capital (net of expenses)		–	2,726
New bank loans	26(b)	5,824	3,229
Repayment of long term bank loan	26(b)	(3,808)	(1,902)
Capital element of hire purchase contracts	26(b)	(476)	(706)
Net cash inflow from financing		1,540	3,347
(Decrease)/increase in cash in the year	26(b)	(272)	1,234
Reconciliation of net cash flow to movement in net debt			
		2007 £000	2006 £000
(Decrease)/increase in cash in the year		(272)	1,234
Cash inflow from increase in loans		(5,824)	(3,229)
Loan issue costs		47	–
Repayment of long term bank loan		3,808	1,902
Repayment of capital element of finance leases and hire purchase contracts		476	706
Change in net debt resulting from cash flows		(1,765)	613
New finance leases and hire purchase contracts		(249)	(248)
Amortisation of loan issue costs		(4)	–
Movement in net debt in the year	26(b)	(2,018)	365
Opening net debt	26(b)	(730)	(1,095)
Closing net debt	26(b)	(2,748)	(730)

Notes to the financial statements

at 31 July 2007

1. Accounting policies

Basis of preparation and new accounting standards

The Group's financial statements have been 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. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 July 2007.

In preparing the financial statements for the current year, the Group has adopted FRS 20 'Share-based payments'. The adoption of FRS 20 has resulted in a change in accounting policy for share-based payment transactions. FRS 20 requires the fair value of options and share awards which ultimately vest to be charged to the profit and loss account over the vesting or performance period. For equity-settled transactions the fair value is determined at the date of the grant using an appropriate pricing model. If an award fails to vest as the result of certain types of performance condition not being satisfied, the charge to the income statement will be adjusted to reflect this.

The adoption of FRS 20 has resulted in additional staff costs of £52,000 (2006: £42,000) which have been recognised in the profit and loss account.

Prior year adjustments

Subscriber acquisition costs

Following the acquisition of 3g during the financial year, the Group has revisited its accounting policy for subscriber acquisition costs, the direct third party costs of recruiting and retaining new mobile contracts. Previously these costs were capitalised as an intangible asset and amortised over the period expected to benefit from the contract. This policy was acceptable under UK GAAP. The policy adopted by 3g historically has been to expense these costs when incurred. The Directors believe that, in light of the majority of the mobile customer base being within 3g, it is now appropriate for the whole Group to adopt this policy of expensing subscriber acquisition costs when incurred. Furthermore, this policy is acceptable under both UK GAAP and IFRS and the Directors also believe it is consistent with emerging sector best practice. The effect of this change in accounting policy has been to decrease the net book value of intangible assets in the Group balance sheet as at 31 July 2006 by £128,000 with a corresponding decrease in the Group profit for the year ended 31 July 2006.

Consolidation of Company previously accounted for as an associate undertaking

On the 28 February 2006, the Company subscribed for 45% of the share capital of UK Telecoms 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 was recognised in the profit and loss account in the prior year. The equity method of accounting was adopted in the financial statements for the year ended 31 July 2006.

During the year ended 31 July 2007, the Directors have revisited the method of accounting for its 45% investment in UK Telecoms Limited and they have concluded that it is more appropriate to adopt acquisition accounting and to consolidate the results and cash flows of UK Telecoms as a subsidiary undertaking. The Directors now believe that due to the Board of UK Telecoms consisting of only BNS appointees, the Group exercised a controlling influence over the operating and financial policies of UK Telecoms from the 28 February 2006. The effect of this prior year adjustment is to decrease the profit of the preceding period by £15,000 represented by an increase in turnover of £667,000, an increase in cost of sales of £336,000, an increase in net operating expenses of £357,000 and a reduction in the previously recognised loss in associates of £11,000. The balance sheet has been impacted by an increase in stock of £49,000, an increase in debtors of £866,000 and an increase in creditors of £930,000 at 31 July 2006. At the 31 July 2007, UK Telecoms was no longer trading and therefore the results for the period have been included in discontinued operations in the profit and loss account.

Basis of consolidation

The Group financial statements consolidate the financial statements of BNS Telecom Group plc and all its subsidiary undertakings drawn up to 31 July each year. 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 £125,000 (2006: restated £61,000).

3g Comms Limited and 3g Landline Limited have been included in the Group financial statements using the acquisition method of accounting. Accordingly, the Group profit and loss account and statement of cash flows include the results and cash flows for the four month period from their acquisitions on 31 March 2007. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

The Group profit and loss account and statement of cash flows also include the results and cash flows of Citygate Telecom Limited for the nine-month period from its acquisition on 18 October 2006.

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.

Licences

The costs associated with the acquisition of third party licences are classified as an intangible asset and from the point at which they are brought into use, amortised over the life of each customer 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.

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.

1. Accounting policies (continued)

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.

Share based payments

Equity settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by an external valuer using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

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 made by customers is recognised at the time the call is made.
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 and installation of hardware is recognised in the profit and loss account when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery.
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. Separate provision is made for any anticipated liabilities.

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.

Revenue is measured at the fair value of the consideration received or receivable. Where goods and/or services are sold in one bundled transaction, the Group allocates the total arrangement consideration to the different individual elements based on their relative fair values. Management determines the fair value of individual elements based on actual amounts charged by the Group on a stand-alone basis, or alternatively, based on comparable pricing arrangements observable in the market.

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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

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 the supply and maintenance of telecommunication services and systems to the SME and Corporate markets.

All assets are held in the UK. The Group operates within three geographical segments, the UK, the rest of Europe and the rest of the World.

The discontinued operations comprise the trading activities of the Network Services Division which comprised International Telecommunications Services, Card services and SMS Mobile services.

The results of 3g Comms Limited and 3g Landline Limited, which were acquired on 30 March 2007, all relate to the supply and maintenance of telecommunication services to the SME and Corporate markets in the UK.

Turnover by destination is analysed as follows:

	2007 £000	2006 £000
Continuing and acquisitions: United Kingdom	26,201	20,373
	26,201	20,373
Discontinued: United Kingdom	1,832	3,970
Rest of Europe	5,171	1,022
Rest of World	1,707	1,100
	8,710	6,092
Total	34,911	26,465

3. Cost of sales and operating expenses

	Continuing £000	Acquisitions £000	Discontinued £000	2007 Total
Cost of sales	14,250	2,588	8,623	25,461
Distribution costs	2,215	131	329	2,675
Administrative expenses	4,982	511	5,728	11,221

	Continuing £000	Discontinued £000	2006 £000
Cost of sales	12,930	4,950	17,880
Distribution costs	2,143	113	2,256
Administrative expenses	4,789	999	5,788

Notes to the financial statements
at 31 July 2007 (continued)

4. Operating loss

	2007 £000	2006 £000
Operating loss is stated after charging/(crediting):		
Depreciation of owned assets (see note 14)	673	435
Depreciation of assets under finance lease (see note 14)	200	306
Impairment loss of tangible fixed assets (see note 14)	668	–
Total depreciation charge	1,541	741
Amortisation of intangible assets	1,107	55
Operating lease rentals – land and buildings	261	210
– fixtures, fittings, equipment and motor vehicles	1	8
Auditors' remuneration (see note 5)	75	67
Rental income	–	(14)
Foreign exchange losses	16	17

5. Auditors remuneration

The remuneration of the auditors is further analysed as follows:

	2007 £000	2006 £000
Audit of the financial statements*	70	60
Other fees to auditors – taxation services	5	7
– corporate finance services	51	123
	126	190

* £ 5,000 (2006: £5,000) of this relates to the Company.

Auditors' remuneration disclosed above includes £51,000 which has been capitalised as it related to acquisitions made during the year. In the year ended 31 July 2006, £123,000 was included as other fees paid to auditors for corporate finance services in respect of the admission of the Company to the Alternative Investment Market. These fees were offset against the share premium account.

6. Exceptional items

	2007 £000	2006 £000
Recognised in arriving at operating (loss)/profit:		
Impairment of goodwill (note 13)	929	–
Amortisation of intangible fixed assets (note 13)	178	55
Impairment of tangible fixed assets (note 14)	668	–
Restructuring charges	714	–
Onerous lease provision (see below)	130	–
	2,619	55
Recognised below operating loss:		
Profit on disposal of land and buildings	(1,018)	–
	1,601	55

The onerous lease provision is in respect of properties vacant at the year end. Provisions have been recognised to cover the rents and service charges for the period that each property is expected to be vacant, being up to the lease expiry or break closure if earlier. Provisions are calculated using the current costs of rents and service charges on each individual lease arrangements. These expected costs have been offset by rental income that the Group expects to receive from sublets on each property provided. The remaining terms of the property leases range from 5 months to 22 months.

The tax effect in the profit and loss account relating to the exceptional items recognised below operating loss is £nil.

7. Directors' emoluments

	2007 £000	2006 £000
Emoluments	466	204
Compensation for loss of office	17	–
Company contributions paid to money purchase pension schemes	10	4
	2007 No.	2006 No.
Members of money purchase pension schemes	2	1

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

	2007 £000	2006 £000
Emoluments	168	127
Company contributions paid to money purchase schemes	–	4

8. Staff costs

	2007 £000	(Restated) 2006 £000
Wages and salaries	5,358	4,812
Social security costs	679	479
Other pension costs	59	56
	6,096	5,347

Included in wages and salaries is a total expense of share-based payments of £52,000 (2006: £42,000) all of which arises from transactions accounted for as equity-settled share based payment transactions.

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

	2007 No.	2006 No.
Corporate and administration	50	52
Sales and customer service	104	104
Technical and engineering	56	42
	210	198

9. Interest payable and similar charges

	2007 £000	2006 £000
Bank loans and overdrafts	268	88
Other interest payable	4	5
Finance charges payable under finance leases and hire purchase contracts	52	68
	324	161

Notes to the financial statements
at 31 July 2007 (continued)

10. Taxation

(a) Tax on (loss)/profit on ordinary activities

The tax credit/(charge) is made up as follows:

	2007 £000	2006 £000
Current tax:		
UK corporation tax	–	(224)
Tax over/(under) provided in previous years	160	(2)
Total current tax	160	(226)
Deferred tax:		
Origination and reversal of timing differences	34	3
Prior year adjustment	2	3
Group deferred tax	36	6
Tax credit/(charge) on (loss)/profit on ordinary activities	196	(220)

(b) Factors affecting current tax (credit)/charge

The tax assessed on the (loss)/profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	2007 £000	(Restated) 2006 £000
(Loss)/profit on ordinary activities before taxation	(3,731)	469
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2006: 30%)	(1,119)	141
Effects of:		
Non deductible expenses and non taxable income	404	52
Capital allowances (in excess of)/less than depreciation	252	3
Losses brought forward	(7)	–
Other tax adjustments	(40)	1
Non-deductible share-based payment charge	16	17
Losses carried forward	494	10
Adjustments in respect of previous periods	(160)	2
Current tax (credit)/charge	(160)	226

(c) Factors affecting future tax changes

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

(d) Deferred tax

The deferred tax asset not recognised in the financial statements is as follows:

	2007 £000	2006 £000
Tax losses	721	279

The deferred tax liability recognised is made up as follows:

	2007 £000	2006 £000
Accelerated capital allowances	–	36

11. Dividends

	2007 £'000	2006 £'000
Paid during the year		
Final dividend for 2006: 0.05p (2005: nil)	251	–

12. Earnings per share

(a) Basic (loss)/earnings per share

The calculation of (loss)/earnings per share is based on the net (loss)/profit for the financial year and on the weighted average number of ordinary shares outstanding during the year.

	2007 £000	(Restated) 2006 £000
Basic (loss)/earnings per share		
(Loss)/profit attributable to equity shareholders	(3,512)	226
Basic weighted average number of shares	50,123	47,899
Basic (loss)/earnings per share (pence)	(7.01)p	0.47p

(b) Adjusted earning per share

Adjusted earnings per share excludes the after tax effect of goodwill charges, share based payment charges (note 24) and other exceptional items as detailed in note 6. The Directors believe that this gives a better indication of underlying commercial performance.

	2007 £'000	2006 £'000
Adjusted earnings per share		
(Loss)/profit after tax	(3,512)	226
Exceptional items (note 6)	1,601	55
FRS 20 share based payment charges	52	42
Tax effect of above adjustments	–	(30)
Adjusted (loss)/profit after tax	(1,859)	421
Number of shares	50,123	47,899
Adjusted (loss)/earnings per share (pence)	(3.71)p	0.61p

(c) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earning per ordinary share is identical to that used for the basic loss per ordinary share for the year ended 31 July 2007. This is because the exercise of the options would have the effect of reducing the loss per ordinary share and is, therefore, not dilutive under the terms of FRS 22.

Earnings and the number of shares used in the calculations of earnings per share at 31 July 2006 are set out below:

	(Restated) 2006 £'000
Diluted (loss)/earnings per share	
(Loss)/profit after tax	226
Diluted weighted average number of shares	48,916
Diluted earnings per share	0.46p

Notes to the financial statements
at 31 July 2007 (continued)

13. Intangible fixed assets

Group	Goodwill £000	Subscriber acquisition costs £000	Licences £000	Total £000
Cost:				
At 1 August 2006, as originally stated	2,099	186	–	2,285
Prior year adjustment	–	(186)	–	(186)
At 1 August 2006, as restated	2,099	–	–	2,099
Additions	3,810	–	159	3,969
At 31 July 2007	5,909	–	159	6,068
Amortisation:				
At 1 August 2006, as originally stated	55	58	–	113
Prior year adjustment	–	(58)	–	(58)
At 1 August 2006, as restated	55	–	–	55
Charge for year	171	–	7	178
Impairment loss	929	–	–	929
At 31 July 2007	1,155	–	7	1,162
Net book value:				
At 31 July 2007	4,754	–	152	4,906
At 1 August 2006	2,044	–	–	2,044

Goodwill

Amounts brought forward represent goodwill which arose on the acquisitions of Modus Telecom Limited in 2005, EMC Partnership Limited, BNS Mobile Limited, Billing Online Limited and Citygate Telecom Limited in 2006.

The results of these businesses have been adversely affected by the trading issues detailed in the Chairman's statement and Business Review on pages 2 to 7. In this context we have carried out the annual impairment test of the carrying value of the goodwill associated with the Network Services Division, undertaken in accordance with FRS11. In performing the impairment test at 31 July 2007, future cash flows are forecast applying a long term growth rate of 2.5% and a pre tax discount rate of 12 per cent. which the Directors believe to be appropriate rates. The results of the test indicate that the current value in use of the goodwill is £929,000 less than its carrying value and a write down of this amount has been reflected in these financial statements.

14. 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 2006	1,449	44	831	1,732	1,600	1,774	7,430
Additions	995	6	399	187	105	–	1,692
Disposals	(3,739)	–	–	–	(256)	–	(3,995)
Acquisitions of subsidiaries	–	–	5	6	–	–	11
Transfers between categories	1,774	–	–	–	–	(1,774)	–
At 31 July 2007	479	50	1,235	1,925	1,499	–	5,138
Depreciation							
At 1 August 2006	27	1	257	800	521	–	1,606
Disposals	(75)	–	–	–	(135)	–	(210)
Provided during the year	48	16	207	338	263	–	872
Impairment loss	–	33	243	393	–	–	669
At 31 July 2007	–	50	707	1,531	649	–	2,937
Net book value							
At 31 July 2007	479	–	528	394	800	–	2,201
At 31 July 2006	1,422	43	574	932	1,079	1,774	5,824

In accordance with FRS11 'Impairment of Fixed Assets and Goodwill,' the carrying values of fixed assets in the Network Services Division at 31 July 2007 have been compared to their recoverable amounts, represented by their value in use to the Group or expected disposal proceeds, net of selling costs.

The value in use has been derived from discounted cash flow projections using a nominal discount rate of 12 per cent. on a pre-tax basis. A long-term growth rate consistent with the average UK industry growth rate of 2.5% has been assumed.

Included in the net book value of fixtures, fittings, computer equipment and motor vehicles above, is an amount of £676,000 (2006: £1,033,000) in respect of assets held under finance leases and hire purchase contracts.

Included within freehold land and buildings is land with a value of £479,000 which is not depreciated.

Included within fixtures, fittings and office equipment are assets acquired for the purpose of letting to customers under operating leases with a cost of £53,000 (2006: £5,000) and accumulated depreciation of £9,000 (2006: £5,000).

Group

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

	£000
Cost:	
At 1 August 2006	1,225
At 31 July 2007	479
Cumulative depreciation based on cost:	
At 1 August 2006	22
At 31 July 2007	–

Notes to the financial statements at 31 July 2007 (continued)

15. Investments

Company	£000
Cost:	
At 1 August 2006	7,476
Additions	4,848
Amounts provided	(476)
At 31 July 2007	11,848

The cost of investments represents shares in Group undertakings.

Acquisition of 3g Comms Limited and 3g Landline Limited (together "3g")

On 30 March 2007 BNS Telecom Group Plc acquired 100% of the issued share capital of 3g for total consideration, including costs of £4,848,000. A preliminary assessment of the book value and fair value of the net assets acquired gives rise to goodwill of £3,702,000.

	Book value and provisional fair value £000
Net assets at date of acquisition	
Tangible fixed assets	11
Stock	130
Debtors	998
Cash	1,599
Creditors falling due within one year	(1,592)
Net assets acquired	1,146
Goodwill arising	3,702
Consideration	4,848
Cash	4,675
Deferred consideration	50
Fees	123
Consideration	4,848

Goodwill of £3,702,000 arising on this transaction has been capitalised and is being amortised over 15 years, which is based upon the Directors' estimate of the useful economic life.

The last financial statements of 3g were prepared for the period 1 January 2006 to 31 December 2006, in which they reported turnover of £10,461,000, operating profit of £631,000 and retained profits of £465,000. In the period from 1 January 2007 to 30 March 2007 3g reported turnover of £2,636,000, and operating profit of £64,000 and retained profits of £52,000.

During the year, 3g generated £124,000 of the Group's net operating cash flows and £7,000 for capital expenditure and financial investment.

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

15. Investments (continued)

Acquisition of Citygate Telecom Limited ("Citygate")

On 18 October 2006 BNS Telecom Limited acquired 70% of the issued share capital of Citygate for total consideration, including costs of £101,000. An assessment of the fair value of the net assets acquired gives rise to goodwill of £101,000.

	Book value and fair value £000
Net assets acquired	
Goodwill arising	101
Cash	95
Fees	6
	101

During the year, Citygate utilised £1,233,000 of the Group's net operating cash flows.

Acquisition of Excel Advance Limited ("XAL")

During the year, an additional £7,000 consideration has been paid in respect of an acquisition in the prior year, which has increased the goodwill.

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
3g Comms Limited	England and Wales	100%	Telecommunications
3g Landline 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
Billing 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
Citygate Telecom Limited	England and Wales	*70%	Telecommunications

* Held by a subsidiary undertaking.

16. Stocks

	2007 £000	(Restated) 2006 £000
Group		
Finished goods and goods for resale	316	270

Notes to the financial statements
at 31 July 2007 (continued)

17. Debtors

	2007 £000	(Restated) Group 2006 £000	2007 £000	Company 2006 £000
Trade debtors	2,176	2,412	–	–
Other debtors	204	116	–	–
Prepayments and accrued income	1,715	1,349	–	14
Amounts owed by Group undertakings	–	–	–	2,569
Corporation tax	132	–	–	–
	4,227	3,877	–	2,583

18. Creditors: amounts falling due within one year

	2007 £000	(Restated) Group 2006 £000	2007 £000	(Restated) Company 2006 £000
Bank loans and overdrafts (note 20)	1,227	2,622	–	–
Obligations under finance leases and hire purchase contracts (note 21)	329	422	–	–
Trade creditors	3,905	3,521	–	–
Corporation tax	–	254	45	45
Other taxes and social security costs	1,102	296	–	–
Accruals and deferred income	3,721	3,400	50	27
Amounts owed to Group undertakings	–	–	1,892	–
	10,284	10,515	1,987	72

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

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

	2007 £000	Group 2006 £000
Bank loans (note 20)	3,174	–
Obligations under finance leases and hire purchase contracts (note 21)	166	300
	3,340	300

20. 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 reviews its exposure to these risks and, where appropriate, will take action to minimise the impact of these risks on the business. Given the size of the Group, the Directors have not 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.

20. Financial instruments (continued)

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.

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 2007 subject to fixed and floating interest rates as follows:

2007	% share	Loans £000	Finance leases and hire purchase agreements £000	Total £000
Fixed rate liabilities	10.0%	–	495	495
Floating rate liabilities	90.0%	4,401	–	4,401
Total	100.0%	4,401	495	4,896

2006	% share	Loans £000	Finance leases and hire purchase agreements £000	Total £000
Fixed rate liabilities	21.6%	–	722	722
Floating rate liabilities	78.4%	2,622	–	2,622
Total	100.0%	2,622	722	3,344

Interest rate risk profile of financial assets

The Group has financial instruments as at 31 July 2007 subject to fixed and floating interest rates as follows:

2007	% share	Cash £000	Total £000
Floating rate assets	100.0%	2,148	2,148

2006	% share	Cash £000	Total £000
Floating rate assets	100.0%	2,614	2,614

Maturity analysis of financial liabilities

Group	2007 £000	2006 £000
Amounts falling due:		
In one year or less or on demand	1,227	2,622
In more than one year but not more than two years	1,175	–
In more than two years but not more than five years	1,999	–
	4,401	2,622
Less: included in creditors: amounts falling due within one year	(1,227)	(2,622)
	3,174	–

Notes to the financial statements at 31 July 2007 (continued)

20. Financial instruments (continued)

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

During the year the Group renegotiated bank loan facilities to fund the acquisition of 3g. The loan of £4,700,000, which was fully drawn down during the year, bears interest at bank base rate plus 1.5%. As at 31 July 2007, the amount outstanding was £4,401,000 which is repayable over the term of the agreement to April 2011. The Group also has a working capital facility of £1,000,000.

21. Obligations under leases and hire purchase contracts

Group

Amounts due under finance leases and hire purchase contracts:

	2007 £000	2006 £000
Amounts payable:		
Within one year	363	466
In two to five years	186	330
	549	796
Less: finance charges allocated to future periods	(54)	(74)
	495	722
Less: included in creditors: amounts falling due within one year	(329)	(422)
	166	300

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:

	2007 £000	Land and buildings 2006 £000	2007 £000	Other 2006 £000
Operating leases expiring:				
Within one year	26	65	–	1
In two to five years	95	80	–	–
In over five years	355	–	–	–
	476	145	–	1

22. Provisions for liabilities

Group

	Deferred tax £'000	Provision for onerous lease £'000	Total £'000
At 1 August 2006	36	–	36
Arising during the year	–	130	130
Released during the year	(36)	–	(36)
At 31 July 2007	–	130	130

The onerous lease provision is in respect of properties vacant at the year end. Provisions have been recognised to cover the rents and service charges for the period that each property is expected to be vacant, being up to the lease expiry or break clause if earlier. Provisions are calculated using the current costs of rents and service charges on each individual lease arrangements. These expected costs have been offset by rental income that the Group expects to receive from sublets on each property provided. The remaining terms of the property leases range from 5 months to 22 months.

23. Share capital

Authorised

	2007 £000	2006 £000
Ordinary shares of 10p each	6,500	6,500

Allotted, called up and fully paid

	2007 No.	2006 No.	2007 £000	2006 £000
Ordinary shares of 10p each	50,122,930	50,122,930	5,012	5,012

24. Share based payments

Executive share options

The Group 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 Group at a fixed option price with set performance conditions.

Savings related share option scheme

The Group 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.

The Group operates an Employees' Share Option Scheme (ESOS) and a Save As You Earn (SAYE) Scheme under which options to subscribe for the Company's shares have been granted to certain employees. Share options are granted at the discretion of the Board of Directors.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movement in, the share options during the year:

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 August	2,320,394	26.4	–	–
Granted during the year	465,000	37.0	2,455,981	27.3
Exercised during the year	–	–	–	–
Forfeited during the year	188,504	45.0	135,587	43.7
Outstanding as at 31 July	2,596,890	26.9	2,320,394	26.4

The weighted average fair value of options granted during the year was 11.1p (2006: 8.9p). The range of exercise prices for options outstanding at the end of the year was 16.2p – 54p (2006: 16.2p – 54p).

The fair value of the awards are calculated using the Black-Scholes model. The table below sets out the assumptions underlying the model for awards made during the year.

Grant date	Notes	Granted FY06			Granted FY07	
		ESOS Nov 05	ESOS Oct 05	SAYE Oct 05	ESOS Oct 06	ESOS May 07
Share price at grant (p)		54	54	54	42.5	37
Exercise price (p)		54	16.2	43.2	42.5	36
Vesting period (years)	1	3	3	3	3	3
Expected volatility	2	35%	35%	35%	35%	35%
Expected life (years)	3	4.5	4.5	3.25	4.5	4.5
Risk free rate (pa)	4	4.21%	4.27%	4.21%	4.73%	5.48%
Expected dividend yield (pa)		3%	3%	3%	3%	3%
Expectations of meeting performance criteria	6	100%	100%	n/a	100%	100%

Notes to the financial statements at 31 July 2007 (continued)

24. Share based payments (continued)

Notes:

- (1) Options normally vest after three years. Equity settlement is applied to all options and there is no cash settlement alternative.
- (2) Expected volatility was determined at the date of grant from historic volatility, adjusted for events that were not considered to be reflective of the volatility of the share price going forward.
- (3) The expected life of the ESOS options has been assessed at 4.5 years. The contractual life of the options is ten years.
- (3) The expected life of the SAYE awards is 3.25 years. The contractual life of the awards is 3.5 years.
- (4) The risk free rate of return is as determined by the Bank of England.
- (5) The charge allows for expected forfeitures over the vesting period. For the ESOS award 25% of awards and for the SAYE award 50% of awards are assumed to be forfeited over the vesting period. This assumption is reassessed at each reporting date.
- (6) Awards granted under the ESOS are subject to performance conditions set by the Remuneration Committee.

The expenditure recognised for share based payments in respect of employee services received during the year to 31 July 2007 is £52,000 (2006: £42,000). This expense all relates to equity settled share based payment transactions.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

25. Reconciliation of shareholders' funds and movement on reserves

Group	Share capital £000	Share premium account £000	Profit and loss account £000	Other reserve £000	Total shareholders' funds £000
At 31 July 2005	4,331	–	140	(3,910)	561
Merger adjustment	–	–	(140)	140	–
Profit for the year, restated	–	–	226	–	226
Share-based payment	–	–	42	–	42
Shares issued	681	3,019	–	–	3,700
Costs incurred in issue of shares	–	(774)	–	–	(774)
At 31 July 2006, restated	5,012	2,245	268	(3,770)	3,755
Loss for the year	–	–	(3,512)	–	(3,512)
Share-based payment	–	–	52	–	52
Dividends paid	–	–	(251)	–	(251)
Realised revaluation surplus	–	–	169	(169)	–
At 31 July 2007	5,012	2,245	(3,274)	(3,939)	44

Company	Share capital £000	Share premium account £000	Profit and loss account £000	Other reserve £000	Total shareholders' funds £000
At 1 August 2006	–	–	–	–	–
Merger adjustment	4,331	–	–	2,669	7,000
Profit for the year, restated	–	–	61	–	61
Shares issued	681	3,019	–	–	3,700
Costs incurred in issue of shares	–	(774)	–	–	(774)
At 31 July 2006, restated	5,012	2,245	61	2,669	9,987
Profit for the year	–	–	125	–	125
Dividends paid	–	–	(251)	–	(251)
At 31 July 2007	5,012	2,245	(65)	2,669	9,861

26. Notes to the cash flow statement

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

Group and Company	2007 £000	(Restated) 2006 £000
Operating (loss)/profit	(4,446)	541
Share-based payment	52	42
Depreciation of tangible assets	1,541	741
Profit on disposal of tangible fixed assets	–	16
Amortisation of intangible fixed assets	1,107	55
Decrease/(increase) in stocks	84	(80)
Decrease/(increase) in debtors	780	(1,361)
(Decrease)/increase in creditors	(132)	469
Increase in provisions	130	–
Net cash (outflow)/inflow from operating activities	(884)	423

(b) Analysis of changes in net debt

	1 August 2006 £000	Cash flow £000	Non cash flows £000	31 July 2007 £000
Cash at bank and in hand	2,614	(466)	–	2,148
Bank overdrafts	(246)	194	–	(52)
Cash	2,368	(272)	–	2,096
Finance leases and hire purchase contracts	(722)	476	(249)	(495)
Loans	(2,376)	(1,969)	(4)	(4,349)
	(730)	(1,765)	(253)	(2,748)

27. Capital commitments

Amounts contracted for at the year end but not provided in the financial statements amounted to £nil (2006: £831,000).

28. Pension commitments

The Group operates a defined contribution pension scheme for the benefit of certain Directors and employees. The assets of the scheme are held separately from those of the Group in an independently administered fund. The contributions charged to the profit and loss account are £58,969 (2006: £55,838). The unpaid contributions outstanding at year end are £10,076 (2006: £11,329).

29. Transactions with Directors

Group

Included within debtors (note 17) are the following amounts relating to loans to Directors.

	2007 GG Moat £000	2006 GG Moat £000
Amounts outstanding 1 August	–	–
Amounts advanced during the year	44	568
Amount repaid during the year	(37)	(568)
Amounts outstanding 31 July	7	–
Maximum outstanding during the year	39	206

30. Related party transactions

During the year Moat Properties Limited provided services to the Group in the normal course of business and on an arms length basis with a total value of £14,000 (2006: £35,000). During the year loans amounting to £67,000 (2006: £353,000) were advanced to Moat Properties Limited, a company controlled by Mr G G Moat. At the year end there was an amount of £26,000 (2006: £nil) owing to the Group from Moat Properties Limited. The maximum outstanding during the year was £26,000 (2006: £1,047,000).

Directory

Registered No.

5523489

Registered and Head Office

Telecom House
Princess Way
Low Prudhoe
Northumberland
NE42 6NJ

Nominated Advisor and Broker

KBC Peel Hunt Ltd
111 Old Broad Street
London
EC2N 1PH

Independent Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Bankers

Barclays Bank
Percy Street
Newcastle upon Tyne
NE1 4QL

Solicitors

Dickinson Dees
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE99 1SB

Registrars

Capita Registrars Limited
Northern House
Woodson Park
Ferry Bridge
Huddersfield
HD8 0LA

