

## Regulatory Story

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### **AdEPT Telecom plc** ("AdEPT" or the "Company")

#### **Final results for the year ended 31 March 2009**

AdEPT, a leading independent provider of award-winning telecommunications services for fixed line, mobile and data connectivity, announces its results for the year ended 31 March 2009.

#### **Financial Highlights**

- Revenue increasing by 21% to £28.6 million driven by the acquisitions made during the previous period
- EBITDA excluding non-recurring costs increasing by 6% to £3.5 million (2008: £3.3m)
- Excellent cash generation with free cash flow of £2.1m (2008: £0.8m)
- 103% of EBITA (£2.0m) converted into cash generated from operating activities (£2.1m) (103% in 2008)
- Net debt reduction of £0.5m year on year, despite significant non-recurring costs of £1.3m
- Adjusted earnings per share, after adding back amortisation and non-recurring costs of 10.44p per share (2008: 11.43p)

#### **Operational Highlights**

- Achieved a higher mix of business customers with total business revenue of 95% of the total this year (2008: 93%), increasing stability of overall customer base
- Excellent progress in increasing revenue from fixed monthly charges, with line rental revenues at March 2009 up 45% at £11.3m (2008: £7.8m)
- Line rental and data products represented 44% of total revenues at March 2009 (35% March 2008)
- Overhead costs (excluding commissions and one-off restructuring costs) decreased to 17% of revenue (2008: 18%)
- 81% of revenue generated from customers taking more than one product or service (2008: 78%)

- Significant improvement to credit collection processes and debt management with year end debtor days of 34 (2008: 53 days)

#### **Commenting upon these results Chairman Roger Wilson said:**

"The business continues to perform well despite challenging economic conditions and be highly cash generative with an EBITA : Sales ratio amongst the sector leaders. AdEPT has no further acquisition payments to meet and therefore we look forward to a period of providing added investor value through deleveraging from continued strong operating cash generation."

#### **Enquiries:**

##### **AdEPT Telecom Plc**

Roger Wilson, Chairman

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### **CHAIRMAN'S STATEMENT**

It is with great pleasure that I announce our annual results.

For the year ended 31 March 2009 AdEPT Telecom plc ("AdEPT" or the "Company") delivered another strong trading performance.

#### **Review of Operations**

The business was established to be a consolidator of the highly fragmented UK fixed line reseller sector which is estimated to include approximately 700, mostly smaller telecom businesses. To date AdEPT has acquired 16 competitors and/or their customer bases.

A critical part of the acquisition strategy is the ability to integrate the acquired customer bases into AdEPT's systems within six weeks thus achieving economies of scale and cost efficiencies. However, this route to growth is increasingly being complemented by organic sales which have grown significantly in the past two years.

#### **Achievements**

Our retention and customer service teams have reduced customer churn substantially in the year. Our indirect sales channel of independent business partners continues to grow with over 60 partners active in bringing us new customers in the year. We have seen an increase in the size of new customers with important wins such as eleven more of the regional Probation Services (we now have 20 in total, representing over half of the Probation Services in the UK), the Italian restaurant chain Carluccio's and a 3000+ site data solution for the national gaming machine operator Gamestec.

Growing line rental revenues has been a key objective and we are delighted to report line rental revenues increased 45% to £11.3m compared to £7.8m in the prior year. Our revenue is becoming more stable as we reduce our reliance on variable monthly call charges, replacing them with fixed monthly line rentals.

#### **Employees**

As a Company we are immensely proud of the track record we have created in a relatively short period of time. Our success is a result of the efforts of all our employees and on behalf of the Board I would like to take this opportunity to thank them for all their hard work.

I would also like to take this opportunity to thank the former directors and non-executive directors who stepped down during the year for their substantial contributions to AdEPT and to wish them all the best for the future.

#### **Shareholder Benefits Scheme**

During the year AdEPT launched a new shareholder benefits scheme, which is available to all shareholders owning a minimum of 1,000 shares. Shareholders who register with the scheme are entitled to free residential line rental worth approximately £120 per annum for as long as they remain eligible shareholders.

## Outlook

The past year has seen an almost unprecedented turmoil in the financial and credit markets, which has had an inevitable knock-on effect into the real world. However, management took early action at the half-year point to reduce overheads and tighten credit management. This has enabled the Company to increase its EBITDA levels despite the economic downturn - no mean achievement under the circumstances. Management also took steps at the end of 2008 to renegotiate and extend our banking facilities for a three year term, giving us certainty of funding going forward. The business focus for this coming year will remain on developing organic sales, improving customer retention, generating cash and paying down debt. We will therefore continue to grow our organic sales channels, invest in new products and complement this with continued investment in retention activities to retain more customers.

We need to guard against complacency given the continued uncertainty in the economic outlook, but I am confident that the business is in a much stronger position than before with a more stable customer base, a higher proportion of fixed monthly revenues and increased focus on customers paying by direct debit. We will also continue to focus very closely on our debtors to ensure payment terms do not get extended.

Roger Wilson  
Non-executive Chairman

## FINANCIAL AND BUSINESS REVIEW

### SUMMARY of three year financial performance:

	Year ending March				
	2009 £'000	Year-on-Year Growth %	2008 £'000	Year-on-Year Growth %	2007 £'000
Revenue	28,567	21%	23,618	25%	18,827
Gross margin	10,341	18%	8,754	20%	7,291
EBITDA*	3,490	6%	3,280	32%	2,490
Net debt	10,843		11,295		2,910

\*excluding non-recurring costs

### REVENUE

Group revenue increased by 21% to £28.6m (2008: £23.6m) with growth primarily derived from the full twelve month contribution from the two acquisitions completed during 2008. The proportion of revenue derived from business customers has increased to 95% (2008: 92%).

The proportion of revenue, which is fixed monthly values, represent 44% of total revenue for the year ended March 2009 (2008: 34%) following the continued focus on multi-product sales (calls and line rental) and the introduction of a broad range of data connectivity products in 2008. The proportion of revenue generated from customers taking more than one product or service has increased to 81% for the year ended March 2009 (2008: 78%) which should provide a more stable future revenue stream.

Average customer monthly spend increased year-on-year by 3.8% to £72.49 in March 2009 reflecting the Group's success in gaining contracts with higher spending customers and an increasing proportion of higher spending business customers.

### GROSS MARGIN

Overall Group gross margin has increased by 18% year-on-year from £8.75m to £10.34m. Margins for calls, lines, data connectivity and broadband have remained broadly stable despite pressures arising from a highly competitive market, however, the net impact on overall margin arising from the changing sales mix is a decrease to 36.2% (2008: 37.1%) as lower margin line rental, data connectivity and broadband revenue is an increased proportion of the total.

### ADMINISTRATION COSTS

Administration costs (excluding depreciation, amortisation and non-recurring costs) increased to £6.9m which is 24% of revenue (2008: 23%). Administration costs include commissions payable to business partners, the proportion of which increased significantly with the Telecom Direct acquisition. Excluding partner commissions, underlying administration costs have reduced by 1% in the year, from 18% to 17% of revenue. We believe that we remain one of the lowest cost operators in the industry.

The non-recurring costs are those incurred in the Telecom Direct division and

restructuring costs which will not recur next year. The bulk of these costs are represented by staff, property and leases, which when stripped out leave the underlying administrative costs for the business. The close-out of the Telecom Direct division was completed during the year.

### EBITDA

Excluding non-recurring costs EBITDA has increased by £0.2m during the year. Revenue growth has been absorbed in part by the margin reduction arising from changes in the sales mix towards lower margin revenue streams combined with the full year cost of partner commissions associated with the prior period acquisitions.

### EARNINGS PER SHARE

Adjusted earnings per share, based on retained earnings adding back amortisation and non-recurring costs (see note 5), has reduced by 9% to 10.44p per share (2008: 11.43p). This arises largely due to lower EBITA margin, driven by gross margin movement from changes to the sales mix, combined with a higher interest cost arising from a full year's interest charge for the debt increase associated with the Telecom Direct acquisition.

### CASH FLOW

The Group benefits from an excellent operating cash model, with EBITA turning into cash. Adjusted EBITA turned into net cash from operating activities is 99% (2008: 79%). Working capital movement during the year was neutral. The Group has focussed on managing its credit risk in the current economic climate and with the introduction of new processes collections of trade receivables were significantly improved during the year with a reduction of customer collection periods to 34 days (2008: 53 days) resulting in an absolute reduction of £0.8m to trade receivables being achieved.

After servicing its debt the Group achieved an increase in cash and cash equivalents of £0.6m during the year. All acquisitions have been paid for and no further earn-out payments are due.

### CAPITAL EXPENDITURE

The Group has low capital requirements and therefore expenditure on tangible assets is low at 0.1% of revenue (2008: 0.8%). Expenditure on intangible assets was £0.1m (2008: £7.4m), which is significantly lower than the prior year comparative which includes the investment in the two customer bases acquired during 2008.

### NET DEBT

Net debt, which comprises cash balances and bank borrowings, improved by £0.5m to £10.8m (2008: £11.3m). This reduction to net debt was achieved through strong cash flow and despite significant non-recurring costs of £1.3m during the year from the close-out of Telecom Direct Limited, restructuring costs and the bank arrangement fees in relation to the new facilities.

The Group continues to manage its exposure to interest rate risks arising from financing activities. After the year end the Group entered an agreement to manage the interest rate risk on 100% of the Group's fixed term debts through to December 2011 at a more favourable rate than that which it replaced.

### KEY PERFORMANCE INDICATORS (KPIs)

The KPIs outlined below are intended to provide useful information when interpreting the accounts. The KPIs outline the Group's position as at the final month of the year, March, which provides an indication of the starting point for the following financial year.

#### Key Performance Indicators (as at 31 March)

	Residential		Business		Total	
	2009	2008	2009	2008	2009	2008
<b>REVENUE BY PRODUCT</b>						
Line rental	1.3%	1.1%	37.7%	32.1%	39.0%	33.2%
Calls	4.0%	6.9%	53.4%	56.3%	57.4%	63.2%
Broadband and data	0.0%	0.0%	2.2%	1.6%	2.2%	1.6%
Mobile	0.0%	0.0%	0.6%	0.5%	0.6%	0.5%
Other	0.0%	0.0%	0.8%	1.5%	1.5%	1.5%
Total	5.3%	8.0%	94.7%	92.0%	100.0%	100.0%

<b>Average monthly spend per customer (ex VAT)</b>	<b>£11.31</b>	£12.93	<b>£101.47</b>	£95.23	<b>£72.42</b>	£69.76
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Note: analysis only includes those customers who received a bill and customers are only billed if the bill exceeds £2.99.

### RESILIENT BUSINESS MODEL

Despite the unprecedented conditions in the UK economy the Board believes that AdEPT has a number of resilient features and a strong customer proposition which it is believed will present opportunities in the coming year. These features include:

- highly cash generative with strong underlying profitability;
- supplies are nearly all business critical - an essential part of the customer's daily operational requirements;
- highly automated systems provides sector leading labour costs : turnover productivity;
- low capital investment requirements relative to turnover;
- continued focus on broadening its product range, particularly with regard to data connectivity;
- customers are spread across all industries, the top ten customers account for approximately 11% of revenues;
- trade suppliers and partners are all top tier suppliers, providing confidence in the continuity and reliability of service to customers;
- 65% of the Group's customers pay by monthly direct debit, reducing the Group's credit risk; and
- the Group has agreed banking facilities through to December 2011. With the elimination of the excess costs associated with the Telecom Direct acquisition, the reorganisation and the level of cash generation forecast, the Board expects the Group's net borrowing position to improve significantly over the next twelve months.

### John Swaite

Finance Director

### CONSOLIDATED INCOME STATEMENT For the year ended 31 March 2009

	Note	2009 £'000	2008 £'000
<b>REVENUE</b>	4	<b>28,567</b>	23,618
Cost of sales		<b>(18,226)</b>	(14,864)
<b>GROSS PROFIT</b>		<b>10,341</b>	8,754
Administrative expenses		<b>(10,451)</b>	(8,843)
<b>OPERATING LOSS</b>		<b>(110)</b>	(89)
<b>Total operating profit - analysed:</b>			
<b>Operating profit before non-recurring costs, depreciation and amortisation</b>		<b>3,490</b>	3,280
Non-recurring costs		<b>(1,314)</b>	(1,381)
Depreciation of tangible fixed assets		<b>(160)</b>	(119)
Amortisation of intangible fixed assets		<b>(2,126)</b>	(1,869)
<b>Total operating loss</b>		<b>(110)</b>	(89)
Finance costs	7	<b>(1,294)</b>	(653)
Finance income		<b>1</b>	4

<b>LOSS BEFORE INCOME TAX</b>		<b>(1,403)</b>	<i>(738)</i>
Income tax credit/(expense)	10	162	<i>(105)</i>
<b>RETAINED EARNINGS (ACCUMULATED LOSSES)</b>	19	<b>(1,241)</b>	<i>(843)</i>
<b>Attributable to:</b>			
Equity holders of the parent		<b>(1,241)</b>	<i>(843)</i>
<b>Earnings per share</b>			
Basic earnings per share	26	<b>(5.89)p</b>	<i>(4.00)p</i>
Diluted earnings per share	26	<b>(5.89)p</b>	<i>(4.00)p</i>

All amounts relate to continuing operations. Notes 1 to 28 form part of these financial statements.

**CONSOLIDATED BALANCE SHEET**  
As at 31 March 2009

	Note	31 March 2009 £'000	31 March 2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	11	<b>20,532</b>	22,514
Property, plant and equipment	12	<b>135</b>	280
Deferred income tax	13	<b>799</b>	713
		<b>21,466</b>	23,507
<b>CURRENT ASSETS</b>			
Trade and other receivables	15	<b>3,218</b>	4,304
Income tax receivable		<b>50</b>	-
Cash and cash equivalents		<b>733</b>	155
		<b>4,001</b>	4,459
<b>TOTAL ASSETS</b>		<b>25,467</b>	27,966
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	<b>5,288</b>	6,597
Income tax		-	103
Short-term borrowings		<b>1,474</b>	923
		<b>6,762</b>	7,623
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	17	<b>10,103</b>	10,527
<b>TOTAL LIABILITIES</b>		<b>16,865</b>	18,150
<b>NET ASSETS</b>		<b>8,602</b>	9,816
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital	18	<b>2,107</b>	2,107
Share premium	19	<b>7,965</b>	7,965
Retained earnings	19	<b>(1,470)</b>	(256)
<b>TOTAL EQUITY</b>		<b>8,602</b>	9,816

The financial statements were approved and authorised for issue by the Board on 6 July 2009 and signed on its behalf.

**Ian Fishwick**

Director

Notes 1 to 28 form part of these financial statements.

## COMPANY BALANCE SHEET

As at 31 March 2009

	Note	31 March 2009 £'000	31 March 2008 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
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		<b>21,466</b>	<b>23,507</b>
<b>CURRENT ASSETS</b>			
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Income tax receivable		50	-
Cash and cash equivalents		733	155
		<b>4,001</b>	<b>4,459</b>
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Retained earnings	19	(1,470)	(256)
<b>TOTAL EQUITY</b>		<b>8,602</b>	<b>9,816</b>

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**Ian Fishwick**

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## GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

**For the year ended 31 March 2009****Attributable to equity holders of the parent**

	<b>Share capital £'000</b>	<b>Share Premium £'000</b>	<b>Retained earnings £'000</b>	<b>Total equity £'000</b>
<b>Equity at 1 April 2007</b>	<b>2,107</b>	<b>7,965</b>	<b>552</b>	<b>10,624</b>
Loss for the year	-	-	(843)	(843)
Share-based payments	-	-	35	35
<b>Net income/(expense) recognised directly in equity</b>	<b>2,107</b>	<b>7,965</b>	<b>(256)</b>	<b>9,816</b>
<b>Equity at 31 March 2008</b>	<b>2,107</b>	<b>7,965</b>	<b>(256)</b>	<b>9,816</b>
Loss for the year	-	-	(1,241)	(1,241)
Share-based payments	-	-	27	27
<b>Net income/(expense) recognised directly in equity</b>	<b>2,107</b>	<b>7,965</b>	<b>(1,470)</b>	<b>8,602</b>
<b>Equity at 31 March 2009</b>	<b>2,107</b>	<b>7,965</b>	<b>(1,470)</b>	<b>8,602</b>

Notes 1 to 28 form part of these financial statements.

**CONSOLIDATED CASH FLOW STATEMENT  
For the year ended 31 March 2009**

	<b>2009 £'000</b>	<b>2008 £'000</b>
<b>Cash flows from operating activities</b>		
Loss before income tax	(1,403)	(738)
Depreciation and amortisation	2,286	1,989
Profit on sale of property, plant and equipment	(1)	-
Profit held in trust	-	(31)
Share-based payments	27	35
Net finance costs	1,293	644
Operating cash flows before movements in working capital	2,202	1,899
Decrease in trade and other receivables	787	79
Decrease in trade and other payables	(920)	(138)
Cash generated from operations	2,069	1,840
Income taxes paid	(79)	(709)
<b>Net cash from operating activities</b>	<b>1,990</b>	<b>1,131</b>
<b>Cash flows from investing activities</b>		
Interest received	1	4
Interest paid	(995)	(665)
Acquisition of subsidiary, net of cash acquired	-	(5,144)
Purchase of intangible assets	(762)	(2,009)
Purchase of property, plant and equipment	(14)	(196)

<b>Net cash used in investing activities</b>	<b>(1,770)</b>	<b>(8,010)</b>
<b>Cash flows from financing activities</b>		
Repayment of finance leases	(47)	(6)
Repayment of borrowings	(1,350)	(1,500)
Increase of bank loan	1,755	7,200
<b>Net cash from financing activities</b>	<b>358</b>	<b>5,694</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>578</b>	<b>(1,185)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>155</b>	<b>1,340</b>
<b>Cash and cash equivalents at end of year</b>	<b>733</b>	<b>155</b>
<b>Cash and cash equivalents :</b>		
Cash at bank and in hand	733	155
Bank overdrafts	-	-
<b>Cash and cash equivalents</b>	<b>733</b>	<b>155</b>

Notes 1 to 28 form part of these financial statements.

**COMPANY CASH FLOW STATEMENT**  
For the year ended 31 March 2009

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cash flows from operating activities</b>		
Loss before income tax	(1,403)	(738)
Depreciation and amortisation	2,286	1,989
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Cash at bank and in hand	<b>733</b>	<i>155</i>
Bank overdrafts	-	-
<b>Cash and cash equivalents</b>	<b>733</b>	<i>155</i>

Notes 1 to 28 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. NATURE OF OPERATIONS AND GENERAL INFORMATION

AdEPT Telecom plc is one of the UK's leading independent providers of voice and data telecommunications services with award winning customer service. The Group is focused on delivering a complete telecommunications service for small and medium sized business customers with a targeted product range including landline calls, line rental, broadband, mobile and data connectivity services.

AdEPT Telecom plc is the Group's ultimate parent Company and is incorporated and domiciled in the UK. The Company's shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange.

The Group's statutory financial statements for the year ended 31 March 2008, prepared under International Financial Reporting Standards, have been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

### 2. ACCOUNTING POLICIES

#### Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as adopted by the EU, as issued by the International Accounting Standards Board.

The date of transition to IFRS was 1 April 2007 (transition date).

The Company has taken advantage of s230 CA 1985 to not present a Company income statement. The loss for the year dealt with in the holding Company, which has been approved by the Board, was £1,462,216 (2008: £842,743).

Certain new standards, amendments and interpretations of existing standards that have been published and which are effective for the Group's accounting periods beginning on or after 1 July 2008 and which are applicable to the Group, but which have not been adopted early are:

- IAS 1 Presentation of Financial Statements (revised 2007)
- IFRS 8 Operating segments: Disclosure
- IAS 23 Borrowing costs (revised)
- IFRS 3 Business combinations
- IAS 39 Financial instruments: Recognition and measurement (amendment)
- IFRS 7 Improving disclosures about financial instruments (amendments and disclosures)

The adoption of these standards, amendments and interpretations is not expected to have a material impact on the Company's profit for the year or equity. Application of these standards will result in some changes in presentation of information within the consolidated financial statements.

**Basis of consolidation**

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 March 2009. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Company and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets (including intangibles) of the acquired subsidiary at the date of acquisition.

**Revenue**

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risks and rewards of ownership to the customer.

Revenue comprises of both invoiced and un-invoiced amounts for performance of network services supplied by the Group during the year. The network services, which include call revenues (billing for call minutes) and fixed charges such as line rental or broadband, are generally billed monthly in arrears. The revenue is recognised in the month to which the calls relate. Revenue from mobile commissions is recognised when the customers are connected to the relevant network.

**Investments**

Shares in the subsidiaries are valued at cost less provision for permanent impairment.

**Intangible fixed assets acquired as part of a business combination and amortisation**

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Intangible fixed assets continue to be subject to an impairment review on the first anniversary after acquisition, when appropriate lives are selected.

The intangible asset "customer base" is amortised to the income statement over its estimated economic life on a reducing balance basis. The average useful economic life of all the customer bases has been estimated at 12 years (2008: 12 years).

**Other intangible assets**

Also included within intangible fixed assets are the development costs of the Group's billing and customer management system plus an individual license. These other intangible assets are stated at cost, less amortisation and any provision for impairment. Amortisation is provided at rates calculated to write off the cost, less estimated residual value of each intangible asset, over its expected useful life on the following basis:

Customer management system	-	3 years straight line
Other licences	-	Contract licence period

**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value of each asset, over its expected useful life on the following basis:

Short term leasehold improvements	-	5 years straight line
Fixtures and fittings	-	3 years straight line
Office equipment	-	3 years straight line

Computer software - 3 years straight line

### **Leasing and hire purchase commitments**

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease or hire purchase obligation is treated in the balance sheet as a liability.

The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals under operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss on a straight line basis, even if payments are not made on such a basis.

### **Pensions**

The Group contributes to personal pension plans. The amount charged to the income statement in respect of pension costs is the contribution payable in the year.

### **Capital instruments**

The costs incurred directly in connection with the issue of debt instruments are charged to the income statement on a straight line basis over the life of the debt instrument.

### **Income tax**

Income tax is the tax currently payable based on taxable profit for the year.

Deferred income tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred income tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

The hive up of intangible assets between Group companies is not considered a business combination under IFRS 3 (Business Combinations) and therefore deferred income tax is not provided on the intangible customer base asset thus acquired by AdEPT Telecom plc.

Deferred income tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred income tax assets.

Deferred income tax liabilities are provided in full, with no discounting. Deferred income tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred income tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred income tax assets, or liabilities are recognised as a component of income tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred income tax is also charged or credited directly to equity.

### **Share-based payments**

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

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, the cumulative expense (as above) 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, the number of equity

instruments that will ultimately vest, or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

#### **Non-recurring items**

Material and non-recurring items of income and expense are separated out in the income statement. Examples of items which may give rise to disclosure as non-recurring items include costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses and asset impairments. Non-recurring costs include the current year expense charged to the income statement in relation to restructuring which has taken place since the year end to derive the underlying profitability of the Group and Company.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Financial instruments**

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group makes use of derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value, i.e. cost. Subsequent to initial recognition derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement as a component of financing income or cost.

The fair value of the derivative financial instrument is the estimated amount that the Group would receive or pay to terminate the instrument at the balance sheet date, taking into account current interest rates and the current creditworthiness of the instrument counterparties.

#### **Capital**

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 17, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 18 and 19.

#### **Borrowings and borrowing costs**

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed to the income statement as incurred with the exception of arrangement fees which are deducted from the related liability and are released over the term of the related liability in accordance with IAS 39.

### **3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year are discussed below.

#### **Impairment of intangible assets**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash-generating units to which the intangible value is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details including carrying values are included in Note 11.

#### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses and other timing differences to the extent that it is more likely than not that taxable profit will be available against which the losses and other timing differences can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning

strategies.

#### Share-based payment

The estimation of the fair value of share options and other equity instruments at the date of grant requires management to make estimates concerning the number of employees likely to exercise their options together with the expected volatility and dividends payable on the underlying shares.

#### Receivables

Debts are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

### 4. REVENUE

The whole of the revenue is attributable to the provision of voice and data communication services to both residential and business customers. The directors regard the Group as having a single business segment. All revenue arose within the United Kingdom.

### 5. OPERATING LOSS

The operating (loss)/profit is stated after charging:

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
Amortisation of customer base, billing system and license	<b>2,126</b>	<i>1,869</i>
Depreciation of tangible fixed assets:		
- owned by the Group	<b>160</b>	<i>119</i>
Loss on disposal of tangible fixed assets	<b>(1)</b>	<i>-</i>
Share option expense	<b>27</b>	<i>35</i>
Minimum operating lease payments	<b>192</b>	<i>342</i>
land and buildings		
motor vehicles and		
other equipment	<b>162</b>	<i>102</i>

The operating loss includes non-recurring costs of £1,314,069 (2008: £1,481,827), in relation to the costs of restructuring and reorganising existing businesses, which will not recur next year. The bulk of these costs are represented by staff, property and leases, which when stripped out leave the underlying administrative costs for the business. Included within this figure, is amortisation of £Nil (2008: £100,889), relating to the billing system for that division.

Included within the share option expense for the year is £3,498 relating to the warrant instrument issued to Barclays Bank plc, see Note 18.

### 6. AUDITORS' REMUNERATION

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<b>31</b>	<i>31</i>
Fees payable to the Company's auditor and its associates in respect of :		
Other services relating to taxation	<b>5</b>	<i>5</i>
Services relating to corporate finance transactions	<b>-</b>	<i>20</i>
All other services	<b>-</b>	<i>14</i>

### 7. FINANCE COSTS

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
On bank loans and overdrafts	<b>942</b>	<i>564</i>

Bank fees	<b>299</b>	78
Finance leases	<b>4</b>	1
Other interest payable	<b>49</b>	10
	<b>1,294</b>	653

## 8. EMPLOYEE COSTS

Staff costs, including directors' remuneration, were as follows:

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Wages and salaries	<b>2,944</b>	2,835
Social security costs	<b>327</b>	279
Share option expense	<b>23</b>	35
Other pension costs	<b>18</b>	16
	<b>3,312</b>	3,165

Employee costs include £1,016,194 non-recurring costs (Note 5) (2008: £810,796).

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2009</b>	2008
	<b>Number</b>	Number
Non-executive directors	<b>4</b>	4
Administrative staff	<b>74</b>	65
	<b>78</b>	69

Key personnel:

The directors are considered to be the key management personnel of the Company, having authority and responsibility for planning, directing and controlling the activities of the Group.

## 9. DIRECTORS' EMOLUMENTS

	<b>2009</b>	2008
	<b>£'000</b>	£'000
Emoluments	<b>848</b>	794
Group pension contributions to money purchase pension schemes	<b>13</b>	16

During the year retirement benefits were accruing to 1 director (2008: 1) in respect of money purchase pension schemes. The highest paid director received remuneration of £231,239 (2008: £207,050). Termination benefits of £128,250 were paid to a director during the year.

The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £13,971 (2008: £15,889).

The share option expense recognised during the year in respect of the directors was £5,000 (2008: £8,968).

## 10. INCOME TAX EXPENSE

	2009	2008
	£'000	£'000
<b>Current tax</b> (see Note below)		
UK corporation tax credit on losses for the year	(51)	65
Adjustments in respect of prior periods	(25)	-
<b>Total current tax</b>	<b>(76)</b>	<b>65</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	52	40
Adjustments in respect of prior periods	(138)	-
<b>Total deferred tax</b> (see Note 13)	<b>(86)</b>	<b>40</b>
<b>Total income tax (credit)/expense</b>	<b>(162)</b>	<b>105</b>

#### Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 30% (2008: 30%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2009	2008
	£'000	£'000
(Loss) before income tax	(1,403)	(738)
Tax rate	28%	30%
<b>Expected tax credit</b>	<b>(392)</b>	<b>(221)</b>
Expenses not deductible for tax purposes	7	32
Amortisation not deductible for tax purposes	353	303
Share option relief	14	-
Effect of rate change on losses carried back	19	-
Adjustments to tax charge in respect of prior periods	(163)	-
Marginal relief	-	(8)
Other timing differences	-	-
<b>Actual tax (credit)/expense net</b> (see Note above)	<b>(162)</b>	<b>105</b>

There were no material factors that may affect future tax charges.

#### 11. INTANGIBLE FIXED ASSETS

Group and Company	Computer		Customer	Total
	License	software	base	
	£'000	£'000	£'000	£'000
<b>Cost</b>				
<b>At 1 April 2007</b>	<b>22</b>	<b>458</b>	<b>17,171</b>	<b>17,651</b>
Additions	4	204	9,425	9,633
Addition from subsidiary	-	96	-	96
Retrospective adjustment	-	(96)	-	(96)

<b>At 1 April 2008</b>	<b>26</b>	<b>662</b>	<b>26,596</b>	<b>27,284</b>
Additions	-	89	55	144
Disposals	-	-	-	-

<b>At 31 March 2009</b>	<b>26</b>	<b>751</b>	<b>26,651</b>	<b>27,428</b>
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#### Amortisation

<b>At 1 April 2007</b>	<b>3</b>	<b>226</b>	<b>2,767</b>	<b>2,996</b>
Charge for the year	3	241	1,626	1,870
Disposals	-	(96)	-	(96)

<b>At 1 April 2008</b>	<b>6</b>	<b>371</b>	<b>4,393</b>	<b>4,770</b>
Charge for the year	3	175	1,948	2,126
Disposals	-	-	-	-

<b>At 31 March 2009</b>	<b>9</b>	<b>546</b>	<b>6,341</b>	<b>6,896</b>
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#### Net book value

<b>At 31 March 2009</b>	<b>17</b>	<b>205</b>	<b>20,310</b>	<b>20,532</b>
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<i>At 31 March 2008</i>	<i>20</i>	<i>291</i>	<i>22,203</i>	<i>22,514</i>
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The Group has no internally generated intangible assets.

The Group acquired a billing system during the year ended 31 March 2008 by way of a hive up of assets from a subsidiary, with a net book value of £96,218 at the date of hive up. The billing system was required to maintain continuity of the billing cycle during the transitional period. Following the transition of the acquired customer base to the AdEPT billing platform the hived up billing system was disposed of.

## 12. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Short term	Fixtures and fittings	Office equipment	Total
	leasehold improvements			
	£'000	£'000	£'000	£'000
<b>Cost</b>				
<b>At 1 April 2007</b>	<b>7</b>	<b>47</b>	<b>289</b>	<b>343</b>
Additions	-	73	124	197
Addition from subsidiary	-	2	42	44
Disposals	-	-	-	-
<b>At 1 April 2008</b>	<b>7</b>	<b>122</b>	<b>455</b>	<b>584</b>
Additions	-	-	15	15
Disposals	-	-	-	-
<b>At 31 March 2009</b>	<b>7</b>	<b>122</b>	<b>470</b>	<b>599</b>
<b>Depreciation</b>				
<b>At 1 April 2007</b>	<b>5</b>	<b>35</b>	<b>144</b>	<b>184</b>
Charge for the year	2	19	99	120
Disposals	-	-	-	-
<b>At 1 April 2008</b>	<b>7</b>	<b>54</b>	<b>243</b>	<b>304</b>
Charge for the year	-	30	130	160
Disposals	-	-	-	-
<b>At 31 March 2009</b>	<b>7</b>	<b>84</b>	<b>373</b>	<b>464</b>
<b>Net book value</b>				
<b>At 31 March 2009</b>	<b>-</b>	<b>38</b>	<b>97</b>	<b>135</b>
<i>At 31 March 2008</i>	<i>-</i>	<i>68</i>	<i>212</i>	<i>280</i>

The Group acquired tangible fixed assets during the year ended 31 March 2008 by way of a hive up of assets from a subsidiary, with a net book value of £44,454 at the date of hive up. These assets are in continuing use within the business.

### 13. DEFERRED TAXATION

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
At 1 April 2008	<b>713</b>	<i>18</i>
Income statement charge	<b>86</b>	<i>(40)</i>
Acquired with subsidiary	<b>-</b>	<i>735</i>
<b>At 31 March 2009</b>	<b>799</b>	<i>713</i>

The deferred tax asset is made up as follows:

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£,000</i>
Capital allowances	<b>121</b>	<i>78</i>
Tax losses	<b>678</b>	<i>621</i>
Other timing differences	<b>-</b>	<i>14</i>
	<b>799</b>	<i>713</i>

The deferred tax asset has been recognised as the Group continues to generate taxable profits against which the asset continues to reverse.

### 14. FIXED ASSET INVESTMENTS

<b>Shares in Group undertakings</b>	<b>Total</b>
	<b>£'000</b>
<b>Cost or valuation</b>	
At 1 April 2007 and 1 April 2008	12,829
Additions	-
<b>31 March 2009</b>	<b>12,829</b>
<b>Amounts written off</b>	
At 1 April 2007 and 1 April 2008	12,829
Amounts written off during the year	-
<b>31 March 2009</b>	<b>12,829</b>
<b>Net book value</b>	
<b>At 31 March 2009</b>	<b>-</b>
<i>At 31 March 2008</i>	<i>-</i>

Details of the principal Subsidiaries are disclosed in Note 23 to the financial statements.

### 15. TRADE AND OTHER RECEIVABLES

Group	Company
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	<b>2009</b>	<i>2008</i>	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Trade receivables	<b>2,628</b>	<i>3,420</i>	<b>2,628</b>	<i>3,420</i>
Other receivables	<b>8</b>	<i>9</i>	<b>8</b>	<i>9</i>
Prepayments and accrued income	<b>582</b>	<i>875</i>	<b>582</b>	<i>875</i>
	<b>3,218</b>	<i>4,304</i>	<b>3,218</b>	<i>4,304</i>

As at 31 March 2009, trade receivables of £560,629 (2008: £380,125) were impaired and fully provided for. The ageing of the trade receivables which are past due and not impaired are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<i>2008</i>	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
31-60 days	<b>68</b>	<i>380</i>	<b>68</b>	<i>380</i>
61-90 days	<b>1</b>	<i>84</i>	<b>1</b>	<i>84</i>
Over 90 days	<b>34</b>	<i>171</i>	<b>34</b>	<i>171</i>
	<b>103</b>	<i>635</i>	<b>103</b>	<i>635</i>

Movement of the Group provision for impairment of trade receivables are as follows:

	<b>Group</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
At 1 April 2007	412	412
Receivables written off during the year as uncollectible	(570)	(570)
Unused amounts reversed	(5)	(5)
Provision for receivables impairment for the year	543	543
<i>At 1 April 2008</i>	<i>380</i>	<i>380</i>
Receivables written off during the year as uncollectible	(472)	(472)
Unused amounts reversed	(35)	(35)
Provision for receivables impairment for the year	688	688
<b>At 31 March 2009</b>	<b>561</b>	<b>561</b>

The creation and release of a provision for impaired receivables has been included in administration expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering cash. Management regularly review the outstanding receivables and do not consider that any further impairment is required. The other assets classes within trade and other receivables do not contain impaired assets.

## 16. TRADE AND OTHER PAYABLES

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<i>2008</i>	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Trade payables	<b>3,292</b>	<i>3,701</i>	<b>3,292</b>	<i>3,701</i>
Other taxes and social security costs	<b>411</b>	<i>503</i>	<b>411</b>	<i>503</i>
Finance lease obligations	<b>6</b>	<i>16</i>	<b>6</b>	<i>16</i>
Other payables	<b>150</b>	<i>143</i>	<b>150</b>	<i>143</i>
Accruals and deferred income	<b>1,429</b>	<i>2,234</i>	<b>1,429</b>	<i>2,234</i>

**5,288 6,597 5,288 6,597**

The finance lease obligations are payable within one year and have a present value of £6,152. Included within accruals is deferred consideration of £Nil (2008: £619,044) in respect of the customer bases and subsidiaries acquired in the current and prior years.

#### 17. LONG TERM BORROWINGS

	<b>Group</b>		<b>Company</b>	
	<b>2009</b>	<i>2008</i>	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>	<b>£'000</b>	<i>£'000</i>
Between 1 and 2 years	<b>1,474</b>	<i>1,712</i>	<b>1,474</b>	<i>1,712</i>
Between 2 and 3 years	<b>1,116</b>	<i>1,712</i>	<b>1,116</b>	<i>1,712</i>
More than 3 years	<b>7,513</b>	<i>7,103</i>	<b>7,513</b>	<i>7,103</i>
<b>Bank loans</b>	<b>10,103</b>	<i>10,527</i>	<b>10,103</b>	<i>10,527</i>

The bank loan is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery. Details of the interest rates applicable to the loans are included in Note 27.

Included within bank loans are arrangement fees amounting to £278,897 which are being released over the term of the loan in accordance with IAS 39.

In addition an exit fee has also been included within this balance. Under the terms of the loan agreement an amount of between £587,500 and £87,500 is due to be paid on the settlement of the loan. The amount payable depends upon future targets based upon the ratio of Net Debt to EBITDA. At the balance sheet date the directors expect the maximum amount will become payable based upon the Group's forecasts. The amount is being charged to finance charges over the life of the loan.

#### 18. SHARE CAPITAL

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
<b>Authorised</b>		
65,000,000 Ordinary shares of 10p each	<b>6,500</b>	<i>6,500</i>
<b>Allotted, called up and fully paid</b>		
21,067,443 Ordinary shares of 10p each	<b>2,107</b>	<i>2,107</i>

#### Share Options

At 31 March 2009, the following options and warrants over the shares of AdEPT were in issue:

	<b>2009</b>	<b>2009</b>	<i>2008</i>	<i>2008</i>
	<b>Number of</b>	<b>Weighted</b>	<i>Number of</i>	<i>Weighted</i>
	<b>shares under</b>	<b>average</b>	<i>shares under</i>	<i>average</i>
	<b>option</b>	<b>exercise price</b>	<i>option</i>	<i>exercise price</i>
<i>Outstanding at 1 April</i>	<b>2,313,046</b>	<b>75p</b>	<i>2,378,420</i>	<i>77p</i>
Granted during the year	<b>1,858,813</b>	<b>23p</b>	<i>-</i>	<i>-</i>
Forfeited during the year	<b>(20,600)</b>	<b>140p</b>	<i>(65,374)</i>	<i>145p</i>
Exercised during the year	<b>-</b>	<b>-</b>	<i>-</i>	<i>-</i>
<b>Outstanding at 31 March</b>	<b>4,151,259</b>	<b>52p</b>	<i>2,313,046</i>	<i>75p</i>

The weighted average fair values have been determined using the Black Scholes-Merton Pricing Model with the following assumptions and inputs:

	<b>2009</b>	<i>2008</i>
--	-------------	-------------

Risk free interest rate	<b>2.71-4.13%</b>	4.13%
Expected volatility	<b>20.0-83.0%</b>	20.0%
Expected option life (years)	<b>1.25-5.7 years</b>	1.25-5.7 years
Expected dividend yield	<b>0%</b>	0%
Weighted average share price	<b>43p</b>	60p
Weighted average exercise price	<b>44p</b>	60p
Weighted average fair value of options granted	<b>5p</b>	6p

The expected average volatility was determined by reviewing the last 100 historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 0%, this estimate of nil is per the requirement of IFRS2 where a Company such as AdEPT has no current dividend history, it does not bear any relation to the actual dividend policy of AdEPT Telecom plc.

	<b>Exercise price (pence)</b>	<b>Expected option life (years)</b>	<b>31 March 2009</b>	<i>31 March 2008</i>
31 July 2003	29	5.7	<b>152,160</b>	152,160
28 December 2003	29	5.3	<b>600,000</b>	600,000
29 August 2004	42	4.6	<b>342,216</b>	342,216
6 June 2005	42	3.6-4.8	<b>342,216</b>	342,216
13 December 2005	140	2.3-4.1	<b>342,216</b>	342,216
14 February 2006	140	3.1-4.1	<b>421,349</b>	421,349
15 February 2006	140	1.25-2.25	<b>86,761</b>	107,361
9 May 2006	199	1.25-2.25	<b>5,528</b>	5,528
1 August 2008	42	3.0	<b>750,000</b>	-
21 January 2009	12	3.0	<b>1,108,813</b>	-
			<b>4,151,259</b>	2,313,046

During the year a warrant was issued to Barclays Bank plc over 5% of the diluted share capital of the Company. As at 31 March 2009 this entitled the holder to 1,108,813 shares. The weighted average fair value of this equity instrument of £55,500 has been determined using the Black Scholes-Merton Pricing Model applying the same assumptions as those applied to the other equity instruments issued during the period due to Barclays Bank plc being unable to provide a sufficiently reliable estimate of the value of services provided in relation to these warrants.

The mid-market price of the ordinary shares on 31 March 2009 was 15.5p and the range during the year was 10.0p to 44.5p.

There have been no transactions with equity holders or dividends during the current or previous year.

## 19. RESERVES

<b>Group</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>
At 1 April 2007	7,965	552
Loss for the year	-	(843)
Share options issued during the year	-	35
<b>At 1 April 2008</b>	<b>7,965</b>	<b>(256)</b>
Loss for the year	-	(1,241)
Share options issued during the year	-	27

**At 31 March 2009** **7,965**      **(1,470)**

<b>Company</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>
At 1 April 2007	7,965	552
Loss for the year	-	(843)
Share options issued during the year	-	35
<b>At 1 April 2008</b>	<b>7,965</b>	<b>(256)</b>
Loss for the year	-	(1,241)
Share options issued during the year	-	27
<b>At 31 March 2009</b>	<b>7,965</b>	<b>(1,470)</b>

## 20. PENSION COMMITMENTS

At 31 March 2009 there were no pension commitments (2008: £Nil).

## 21. OPERATING LEASE COMMITMENTS

At 31 March 2009 the Group and Company had lease commitments as follows:

<b>Group and Company</b>	<b>Land and buildings</b>		<b>Other</b>	
	<b>2009 £'000</b>	<b>2008 £'000</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Within 1 year	147	331	37	87
Between 2 and 5 years	484	612	7	29
More than 5 years	-	25	-	-

Land and Buildings:

The Group leases its offices under non cancellable operating lease agreements. There is no material contingent rent payable. The lease agreements do not offer security of tenure. The lease terms are for approximately 5 years.

Other:

The Group leases various office equipment and motor vehicles under non cancellable operating lease agreements. The lease terms are either 2 or 3 years.

The lease expenditure charged to the income statement during the year is disclosed in Note 5.

## 22. RELATED PARTY TRANSACTIONS

During the year CKR Holdings Ltd, a Company controlled by Mr C Fishwick, a director, provided consultancy services to the Group in the normal course of business and at an arm's length basis with a total value of £14,215 (2008: £10,000). There was no balance owing to CKR Holdings at the end of the year (2008: £Nil).

## 23. PRINCIPAL SUBSIDIARIES

<b>Company name</b>	<b>Country</b>	<b>Percentage shareholding of ordinary shares</b>	<b>Description</b>
Transglobal Telecommunications Limited	England & Wales	100	Non-trading
Connaught Telecommunications Limited	England & Wales	100	Non-trading
Call Options UK Limited	England & Wales	100	Non-trading
Adept Managed Networks Limited	England & Wales	100	Non-trading
Connectacom Network Solutions Limited	England & Wales	100	Non-trading
Oxtalk Limited	England & Wales	100	Non-trading

Telecom Direct Limited	England & Wales	100	Non-trading
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The business and assets of Subsidiaries are hived up to AdEPT immediately or within one month following acquisition. After the hive up, the Subsidiaries become inactive. With effect from April 2009 all of the above Subsidiaries, with the exception of Oxtalk Limited and Telecom Direct Limited (both non-trading), are in the process of being taken through a member's voluntary liquidation.

#### 24. CAPITAL COMMITMENTS

At 31 March 2009 there were capital commitments of £65,000 (2008: £23,188).

#### 25. ANALYSIS OF ACQUISITIONS

During the year ended 31 March 2008 the Group made two acquisitions. Following acquisition the customers were fully integrated into a single billing and customer service platform. Whilst revenue can be separately identified by acquisition, cost of sales cannot. Calls are routed across various network suppliers and the overhead base services all of our customers. The analysis of revenue by existing and acquired businesses is, therefore, as follows:

	<b>31 March 2009 £'000</b>	<i>31 March 2008 £'000</i>
<b>Sales revenue</b>		
Existing businesses as at 31 March	<b>28,567</b>	<i>16,437</i>
Businesses acquired in the year	<b>-</b>	<i>7,181</i>
<b>Total sales revenue</b>	<b>28,567</b>	<i>23,618</i>

#### 26. EARNINGS PER SHARE

Earnings per share is calculated on the basis of a loss of £1,240,975 (2008: loss £842,743) divided by the weighted average number of shares in issue for the year of 21,067,443 (2008: 21,067,443). The diluted earnings per share is calculated on the assumption that the unapproved and EMI share options as disclosed in note 18 to the financial statements are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 25,218,702 (2008: 22,959,140).

An adjusted earnings per share is calculated by adding back amortisation of intangible assets and non-recurring costs to retained earnings, giving £2,027,701 (2008: £2,407,683). This is divided by the same weighted average number of shares as above.

	<b>2009 £'000</b>	<i>2008 £'000</i>
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##### **Earnings for the purposes of basic and diluted earnings per share**

Loss for the period attributable to equity holders of the parent	<b>(1,241)</b>	<i>(843)</i>
Amortisation	<b>2,126</b>	<i>1,869</i>
Non-recurring costs	<b>1,314</b>	<i>1,381</i>
Adjusted profit attributable to equity holders of the parent, adding back amortisation and non-recurring costs	<b>2,199</b>	<i>2,407</i>

##### **Number of shares**

Weighted average number of shares used for earnings per share	<b>21,067,443</b>	<i>21,067,443</i>
Dilutive effect of share plans	<b>4,151,259</b>	<i>1,891,697</i>
Diluted weighted average number of shares used to calculate fully diluted earnings per share	<b>25,218,702</b>	<i>22,959,140</i>

##### **Earnings per share**

Basic earnings per share	<b>(5.89)p</b>	<i>(4.00)p</i>
Fully diluted earnings per share	<b>n/a</b>	<i>n/a</i>

**Adjusted earnings per share, after adding back amortisation and non-recurring costs**

Adjusted basic earnings per share	<b>10.44p</b>	11.43p
Adjusted fully diluted earnings per share	<b>8.72p</b>	10.49p

Earnings per share is calculated by dividing the retained earnings attributable to equity holders of the parent by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the retained earnings attributable to equity holders of the parent (after adding back amortisation and non-recurring costs) by the weighted average number of ordinary shares in issue.

The adjustment for the dilutive effect of share options has not been reflected in the calculation of the diluted loss per share as the effect would be anti-dilutive, therefore diluted and basic earnings per share are equal.

**27. FINANCIAL INSTRUMENTS**

Set out below are the Group's financial instruments. The directors consider there to be no difference between the carrying value and fair value of the Group's financial instruments.

	<b>2009</b>	2008
	<b>£'000</b>	£'000
<i>Financial assets</i>		
Cash	<b>733</b>	155
Trade and other receivables	<b>2,636</b>	3,429
<i>Financial liabilities</i>		
Interest bearing loans and borrowings:		
Obligations under finance lease contracts	<b>6</b>	16
Floating rate borrowings	<b>4,455</b>	2,863
Fixed rate borrowings	<b>7,400</b>	8,588
Other financial liabilities	<b>-</b>	619
	<b>11,861</b>	12,086
Amounts due for settlement:		
Within 12 months	<b>1,579</b>	1,952
After 12 months	<b>10,282</b>	10,134
	<b>11,861</b>	12,086

The Facility A term loan bears interest at 3.5% over LIBOR and is repayable by quarterly instalments of £394,650. The final repayment is due on 31 December 2011. At the year end the amount outstanding in respect of this facility was £9.355m.

The Alternative Structured Facility bears cash interest at a rate at 5.5% over LIBOR. Payment In Kind interest is accruing on the Alternative Structured Facility at a rate of 2.0% per annum which is payable on the final repayment date of 31 December 2011. At the year end the amount outstanding in respect of the Alternative Structured Facility was £2.5m.

At 31 March 2009 the Group had no outstanding earnout liabilities (2008: £619,044). No interest is charged on these liabilities. The weighted average period of financial liabilities on which no interest is paid is 12 months (2008: 12 months).

The fixed interest rate liabilities relate to amounts payable on finance lease liabilities. The weighted average interest rate of these liabilities was 8.0% and the weighted average period for which the interest rates are fixed was 60 months.

The financial assets of the Group are surplus funds, which are offset against borrowings under the facility, and there is no separate interest rate exposure.

Barclays Bank plc has a cross guarantee and debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future including goodwill, book debts, uncalled capital, buildings, fixtures, fixed plant and machinery.

The bank also holds a charge over the life assurance policies of Ian Fishwick and

Amanda Woodruffe, directors of the Company, for £250,000 and £1,500,000 respectively.

#### Obligations under finance leases

	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
Finance lease liabilities - minimum lease payments:		
No later than 1 year	<b>6</b>	<i>17</i>
Later than 1 years and no later than 5 years	-	-
Later than 5 years	-	-
Future finance charges on finance leases	-	<i>(1)</i>
<b>Present value of finance lease liabilities</b>	<b>6</b>	<i>16</i>

The present value of finance lease liabilities is as follows:

No later than one year	<b>6</b>	<i>16</i>
Later than 1 years and no later than 5 years	-	-
Later than 5 years	-	-
	<b>6</b>	<i>16</i>

The Group has a certain amount of its property, plant and equipment under finance lease. For the year ended 31 March 2009 the average effective borrowing rate was 8.0%. Interest rates are fixed at the contract dates. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling. Finance lease liabilities are secured upon the underlying assets. Outstanding finance lease obligations at 31 March 2009 are due to be settled within 12 months. The fair value of the Group's lease obligations approximates to their carrying amount.

#### Sensitivity analysis

At 31 March 2009 it is estimated that a movement of one percentage point in interest rates would impact the Group's profit before tax by approximately £129,000. Given the interest rate hedge in place, this impact on profit would be reduced should interest rates rise above 3.77%.

#### Interest rate risk

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep at least 75% of its borrowings at fixed rates of interest. At 31 March 2009, after taking into account the effect of interest rate management, 62.4% of the Group's borrowings are at a fixed rate of interest (2008: 75%).

#### Credit risk

Credit risk associated with cash balances and derivative financial instruments is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is deemed to be limited.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2009 was £3,369,207 (2008: £3,583,988).

#### Loans and receivables

	<b>31 March</b>	<i>31 March</i>
	<b>2009</b>	<i>2008</i>
	<b>£'000</b>	<i>£'000</i>
Trade receivables	<b>2,628</b>	<i>3,420</i>
Other receivables	<b>8</b>	<i>9</i>
Cash and cash equivalents	<b>733</b>	<i>155</i>
	<b>3,369</b>	<i>3,584</i>

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of

only dealing with creditworthy counterparties and this policy has been implemented by requiring staff to carry out appropriate credit checks on customers before sales commence.

Trade receivables consist of a large number of customers, spread across diverse industries across the United Kingdom. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected parties.

#### Liquidity risk

The Group has an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity risk management requirements. The Group manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities through cash flow forecasting, acquisition planning and monitoring working capital and capital expenditure requirements on an ongoing basis.

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining period at the balance sheet dated to the contractual maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows. Discounting is not required as this has no material effect on the financial statements.

#### Amortised cost

Year ended 31 March 2009	Within			More than
	1 year	1-2 years	2-5 years	5 years
	£'000	£'000	£'000	£'000
<b>Borrowings</b>	1,474	1,474	8,629	-
<b>Finance leases</b>	6	-	-	-
<b>Trade and other payables</b>	3,442	-	-	-
	<b>4,922</b>	<b>1,474</b>	<b>8,629</b>	<b>-</b>

Year ended 31 March 2008	Within			More than
	1 year	1-2 years	2-5 years	5 years
	£'000	£'000	£'000	£'000
<i>Borrowings</i>	923	1,712	8,815	-
<i>Finance leases</i>	10	6	-	-
<i>Trade and other payables</i>	3,845	-	-	-
	<i>4,778</i>	<i>1,718</i>	<i>8,815</i>	<i>-</i>

#### Currency risk

The Group's operations are handled entirely in sterling.

#### 28. EVENTS AFTER THE BALANCE SHEET DATE

The Group continues to manage its exposure to interest rate risks arising from financing activities. After the year end the Group entered an agreement to manage the interest rate risk on 100% of the Group's fixed term debts through to December 2011 at a more favourable rate than that which it replaced.

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