



Consolidated Financial
Statements
Gamma Telecom Holdings
Limited

For the year ended 31 December 2010

Company information

Company registration number	4287779
Registered office	5 Fleet Place LONDON EC4M 7RD
Directors	K E Kuok M Sofaer M J C Stone C R H Stone KC Tse R M Falconer G Sreeves C S McGregor S J Burton
Secretary	G Sreeves
Bankers	HSBC Bank Plc 60 Queen Victoria Street LONDON EC4N 4TR
Solicitors	Charles Russell 5 Fleet Place LONDON EC4M 7RD
Auditor	Grant Thornton UK LLP Chartered Accountants Statutory Auditor 3140 Rowan Place John Smith Drive Oxford Business Park South OXFORD OX4 2WB

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Chairman's statement

The Gamma Group made solid and consistent progress throughout 2010, with good margin growth in software based services more than compensating for the full year impact of the loss of the Tiscali contract in July 2009. General legacy business margins held steady, other costs were contained or reduced, and as a consequence gross profit increased marginally from £33.4m (23.6%) in 2009 to £33.5m (26.5%) in 2010; EBITDA increased from £6.5m in 2009 to £7.9m in 2010 (an increase of 21.5%), whilst cash flow before financing increased from £4.1m in 2009 to £4.3m. The Group declared an operating profit (PBIT) for 2010 of £4.0m (2009:£2.6m), and closed the year with net funds of £2.8m (2009: net debt of £1.6m).

Net cash inflow from operating activities in 2010 was £7.1m. After interest payments, taxation and capital expenditure the cash inflow before financing was £4.3m (2009: £4.1m), demonstrating consistent growth in cash generation over three years.

As anticipated, revenue declined from £141.3m in 2009 to £126.2m reflecting the full year impact of the acquisition of Tiscali (which was Gamma Telecom's largest customer) by Carphone Warehouse in July 2009. When adjusted for this, the business demonstrated underlying revenue growth of £6.6m, despite significant reductions in the regulated cost of calls from Gamma's fixed network to mobiles.

The launch of Gamma's own IPR incoming call control product "Contact Pro" in February 2010 helped to accelerate the trend of shifting margins from traditional voice connectivity to software or "cloud" based call handling services embedded in the network. According to Illume Consulting¹ Gamma is also now the market leader in "SIP trunking", the next generation of customer site connectivity, offering a cheaper and better alternative to traditional ISDN services from incumbents such as BT.

Gamma's core capability of having a flexible and reliable core IP network coupled with the ability to rapidly develop and deploy sophisticated bespoke software has led to significant contracts for the provision of fixed to mobile converged services, an area we plan to develop further.

A major network upgrade came to completion in 2010 with the final installation and acceptance of the Ericsson advanced technology in the network. This gives the business a leading technical capability which is now being actively exploited for product development. Operationally, the service provided was at a record high, reflecting the quality and resilience of the infrastructure and the processes surrounding it. This has been a major factor in business growth and retention. The overall strategy of excellence in a single set of automated systems remains a core strength relative to competitors particularly those that have grown through acquisition. It drives quality into our service and helps contain overhead growth whilst the business develops and diversifies. A customer satisfaction survey produced an encouraging set of results giving Gamma a Net Promoter Score² of +13%. This is upper quartile for the telecoms sector and it is generally recognised that companies achieving a Net Promoter Score over +10% should experience strong growth.

In 2010 the number of partners actively working with Gamma grew to around 600 (2009: 550) and now includes major Systems Integrators and Mobile Operators, many of which now come from referrals.

¹ As at November 2010

² Net Promoter Score or NPS is an industry diagnostic and standardised mechanism for assessing customer satisfaction. The customer is asked 'On a scale of 1 (least likely) to 10 (highly likely), would you recommend company x to a colleague?' The NPS is the percentage of respondents that scored 9 and above minus the number that scored 6 and below.

The wholly owned subsidiary, Uni World Communications Limited, continued to contribute positively to group cash generation and during 2010 the opportunity was taken to integrate some of the back office functions into Gamma, thereby reducing overheads.

To support the operational development and support of new products the average number of staff in the Group increased over the year from 263 to 270. Overheads however remained flat, reflecting general good management control of costs, although overheads are expected to rise in 2011 to support product development. The opportunity was also taken in December to re-locate the HQ of the business to a larger more suitable building in Newbury.

Looking forward into 2011, three new products are due for release into Gamma's channels:

- an MVNA³ with Vodafone Limited: Gamma has entered into a agreement to take a wholesale version of Vodafone's mobile service into its UK channel, with the ability to brand in either Gamma's or the channel partners name. This is the first such arrangement Vodafone has made in the UK business market, and we believe there will be substantial opportunities for both Gamma and Vodafone as a consequence (existing Gamma mobile customers will transfer across to the new service).
- a Business grade data service utilising Gamma's own core network and coupled to BT's next generation data network for local access. This product is designed for high quality business services, including voice, and plugs a gap in Gamma's portfolio; existing third party provided services (around 10,000 data circuits) will be migrated onto the new platform in H2 2011.
- a "cloud" based telephony management service branded "Horizon" that will provide a business's complete inbound, outbound and PBX telephony control from a single portal interface, reducing the need for equipment on the customer's site.

These products complete the core set for our market and the focus will now shift to increasing volumes, and providing more joined up solutions for particular end customer markets. The Board is very encouraged by the continued development of the business.

Charles McGregor
Chairman
9 March 2011

³ Mobile Virtual Network Aggregator

Report of the directors

The directors present their report and the consolidated financial statements of the Group for the year ended 31 December 2010.

Principal activities and business review

The Group is principally engaged in the provision of telephony services.

Strategy

Gamma's strategy is to focus on selling through the distribution channel and to increase both the number of partners and the share of their business they conduct with Gamma. This will be achieved by continuing to release exciting and innovative products, based on the next generation IP technology, that give the channel an edge by changing the way businesses can exploit telecommunications services.

Uni World remains a downstream business focused on selling through agents to the small and medium sized business sector and operating on an arms length basis.

Key performance indicators

	2010	2009	Change
Turnover	£126.2m	£141.3m	-10.7%
Gross profit	£33.5m	£33.4m	+0.3%
Gross profit percentage	26.5%	23.6%	+12.3%
Earnings before interest, taxation, depreciation and amortisation	£7.9m	£6.5m	+21.5%
Profit before taxation	£3.9m	£2.3m	+69.6%
Cash expenditure on capital equipment	£2.7m	£2.8m	-3.6%
Average headcount	270	263	+2.7%

Outlook

The growth of IP telephony technology and the advent of convergent (fixed/mobile) services will radically change the industry. Having little in the way of legacy technology and systems, coupled with strong channel relationships, the Group is well positioned to exploit this opportunity and take a leading role in providing next generation services through its channel to the business market.

Financial overview

In difficult market conditions Gamma has seen reduced turnover at £126.2m (2009: £141.3m) but has increased the gross profit from £33.4m in 2009 to £33.5m in 2010 by focussing on higher margin customers and higher margin products. The directors are not recommending the payment of a dividend.

Turnover

Turnover has fallen to £126.2m in 2010 (2009: £141.3m) due to the loss of a major customer (Tiscali) in July 2009. Excluding Tiscali underlying turnover actually increased by £6.6m year on year.

Gross profit

Gross profit increased by £0.1m to £33.5m in 2010 (2009: £33.4m), representing a gross profit percentage of 26.5% (2009: 23.6%). The directors attribute this increase to the focus on higher margin customers and the proportion of revenue coming from IP and software based products.

Operating costs

Gamma's operating costs excluding depreciation and amortisation were slightly lower in 2010 than in the previous year at £25.6m (2009: £26.8m). This is driven by a reduction in bad debt and a concerted effort at cost control.

Capital expenditure

The total cash expenditure on fixed assets in 2010 was £2.7m (2009: £2.8m) as Gamma continued to develop its IP and software services platform.

Cash flow

Net cash inflow from operating activities was £7.1m in 2010 (2009: £7.3m). After interest payments, taxation and capital expenditure the cash inflow before financing was £4.3m (2009: £4.1m) showing a consistent trend of strong cash generation.

Environmental policy

The Group's environmental policy is focussed on five areas:

- Gamma's commitment to reducing carbon emissions began in 2006 with the early adoption of IP based soft-switching in our core network, marking the first major initiative of its kind in the UK. Soft-switching has allowed Gamma to move from a power-hungry hardware infrastructure to a more software driven environment which uses far less power. In 2010 the Group consumed 4.4m kwhr (2009: 4.2m kwhr), a slight increase due to "double running" of switches while the older switch is retired.
- Gamma Telecom is now a Certified CarbonNeutral Company and is the only network operator in the UK to have a net zero carbon footprint. The group has been independently assessed for its carbon output, taking into account all utility usage, business travel and waste across each site, as well as the electricity consumed by the network. The total carbon output has been offset through investment in renewable energy projects through the CarbonNeutral Company Ltd, so that Gamma is a net zero carbon contributor to the environment. These projects include a geo-thermal and biomass project in Turkey and Sri Lanka.
- providing products that can help end customers reduce their carbon footprint, for example, by enabling more efficient home working.
- good housekeeping and encouraging flexi-working to reduce travel.
- the company continues to support The Woodland Trust via corporate membership.

Principal risks and uncertainties

The directors set out the principal risks facing the business as follows:

Regulation

The UK telecoms market is subject to significant regulation through Ofcom, the industry regulator. A major part of Gamma's expenditure relates to regulated products that it buys from BT in markets where BT has significant market power. Decisions by the regulator can therefore have a significant effect on Gamma's performance.

Competition

The UK fixed line telecoms market is highly competitive despite a reduction in the number of network operators over the last few years. There is also some excess capacity on legacy voice networks which continues to affect price levels.

Technological Advances

Gamma's strategy is based on the transition from traditional voice telephony to IP based technology and services. As with any technological change this brings some uncertainty and risk, including the uncertainty about the speed with which the market will adopt the new technology.

Financial risk management objectives and policies

The group is exposed to a variety of financial risks which result from both its operating and investing activities. The board is responsible for coordinating the group's risk management and focuses on actively securing the group's short to medium term cash flows.

The group does not actively engage in the trading of financial assets and has no financial derivatives.

Credit risk

The group's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of any allowance for doubtful debtors, estimated by the directors.

The group operates a strict credit vetting policy, basing its credit terms on a customer's payment history, financial performance and externally available credit data.

Cash flow risks

The group seeks to manage risks to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short term flexibility is achieved by the use of an invoice discounting facility, which provides very significant headroom over and above current funding needs. The group has restructured its debt during 2010 so that £4m is now re-payable after more than one year.

Directors

The directors who served the company during the year were as follows:

K E Kuok
M Sofaer
M J C Stone
C R H Stone
K C Tse
R M Falconer
G Sreeves
C S McGregor
S J Burton

Directors' and officers' liability insurance

The company has, as permitted by s234 and 235 of the Companies Act 2006, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company.

Directors' responsibilities statement

The directors are responsible for preparing the Report of the directors 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). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these 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;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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

Auditor

Grant Thornton UK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

ON BEHALF OF THE BOARD

G Sreeves
Director
9 March 2011



Report of the independent auditor to the members of Gamma Telecom Holdings Limited

We have audited the financial statements of Gamma Telecom Holdings Limited for the year ended 31 December 2010 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Director's responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and form an opinion the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor to the members of Gamma Telecom Holdings Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns;
or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Janet Crookes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
9 March 2011

Principal accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with applicable accounting policies and under the historical cost convention.

The principal accounting policies remain unchanged from the prior year and are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and the results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Goodwill

Positive purchased goodwill arising on acquisitions and goodwill arising on consolidation representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its estimated useful economic life as follows:

Goodwill on consolidation	-	5% - 33% straight line
Purchased goodwill	-	33% straight line

Turnover

Turnover represents the amounts (excluding VAT) derived from the provisions of goods and services to customers during the year. Call revenue is recognised in the month in which calls are made. Revenue for fixed charges such as line rentals is recognised in the period to which it relates.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Network assets	-	7% - 33% straight line
Motor vehicles	-	25% straight line
Fixtures & fittings	-	20% - 25% straight line
Computer equipment	-	25% - 50% straight line

Capitalisation of internal costs

Employee time costs in respect of specific projects are capitalised to the extent that they are directly attributable to those projects and create an asset for on-going use within the business. These assets are then depreciated in accordance with the depreciation policy stated above.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Work in progress comprises installation costs incurred which are underway and have yet to be accepted by the customer.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured on an undiscounted basis using rates of tax that have been enacted or substantively enacted by balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange differences are taken into account in arriving at the operating profit.

The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

Share options

In accordance with FRS 20 'Share based payments', the fair value of equity-settled share-based payments to employees is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The fair value is measured by use of the binomial pricing model. Further details are set out in note 21.

Provisions

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. The total cost of rectification is estimated once the stage of the lease has been reached at which a reliable estimate of costs can be made, a provision is built up over the remaining length of the lease.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Dividends and distributions relating to equity instruments are debited direct to equity.

Group profit and loss account

	Note	2010 £'000	2009 £'000
Group turnover	1	126,238	141,292
Cost of sales		(92,736)	(107,920)
Gross profit		33,502	33,372
Operating expenses	2	(14,648)	(15,257)
Selling and administrative expenses	2	(11,004)	(11,575)
Depreciation and amortisation	2	(3,861)	(3,902)
		(29,513)	(30,734)
Operating profit	3	3,989	2,638
Interest receivable		1	6
Interest payable and similar charges	6	(86)	(351)
Profit on ordinary activities before taxation		3,904	2,293
Tax on profit on ordinary activities	7	(467)	1,275
Profit for the financial year	22	3,437	<u>3,568</u>

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own profit and loss account.

Group balance sheet

	Note	2010 £'000	2009 £'000
Fixed assets			
Intangible assets	9	6,752	7,270
Tangible assets	10	20,458	21,093
		<u>27,210</u>	<u>28,363</u>
Current assets			
Stocks	12	511	56
Debtors	13	22,702	21,898
Cash at bank and in hand		10,377	8,980
		<u>33,590</u>	<u>30,934</u>
Creditors: amounts falling due within one year	15	(28,935)	(35,231)
Net current assets/(liabilities)		<u>4,655</u>	<u>(4,297)</u>
Total assets less current liabilities		31,865	24,066
Creditors: amounts falling due after more than one year	16	(10,717)	(6,721)
		<u>21,148</u>	<u>17,345</u>
Provisions for liabilities	17	(574)	(229)
		<u><u>20,574</u></u>	<u><u>17,116</u></u>
Capital and reserves			
Called-up equity share capital	20	225	225
Share premium account	22	26,397	26,397
Share option reserve	22	737	730
Foreign exchange reserve	22	21	7
Profit and loss account	22	(6,806)	(10,243)
Shareholders' funds	23	<u>20,574</u>	<u>17,116</u>

These consolidated financial statements were approved by the directors and authorised for issue on 9 March 2011 and are signed on their behalf by:

R M Falconer
 Director
 Company number: 4287779

G Sreeves
 Director

Company balance sheet

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	10	20,321	20,862
Investments	11	10,767	10,767
		<u>31,088</u>	<u>31,629</u>
Current assets			
Debtors	13	1,217	1,264
Cash at bank and in hand		–	915
		<u>1,217</u>	<u>2,179</u>
Creditors: amounts falling due within one year	15	<u>(19,414)</u>	<u>(23,094)</u>
Net current liabilities		<u>(18,197)</u>	<u>(20,915)</u>
Total assets less current liabilities		12,891	10,714
Creditors: amounts falling due after more than one year	16	<u>(6,717)</u>	<u>(6,721)</u>
		<u>6,174</u>	<u>3,993</u>
Capital and reserves			
Called-up equity share capital	20	225	225
Share premium account	22	26,397	26,397
Profit and loss account	22	(20,448)	(22,629)
Shareholders' funds		<u>6,174</u>	<u>3,993</u>

These consolidated financial statements were approved by the directors and authorised for issue on 9 March 2011 and are signed on their behalf by:

R M Falconer
 Director
 Company number: 4287779

G Sreeves
 Director

Group cash flow statement

	Note	2010 £'000	2009 £'000
Net cash inflow from operating activities	24	7,137	7,318
Returns on investments and servicing of finance	24	(85)	(345)
Taxation	24	–	(7)
Capital expenditure and financial investment	24	(2,708)	(2,846)
Cash inflow before financing		<u>4,344</u>	<u>4,120</u>
Financing	24	(2,947)	(4,436)
Increase/(decrease) in cash	24	<u>1,397</u>	<u>(316)</u>

Notes to the consolidated financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the Group. An analysis of turnover is given below:

	2010 £'000	2009 £'000
United Kingdom	<u>126,238</u>	<u>141,292</u>

2 Other operating charges

	2010 £'000	2009 £'000
Operating expenses	14,648	15,257
Selling and administrative expenses	11,004	11,575
Depreciation and amortisation	3,861	3,902
	<u>29,513</u>	<u>30,734</u>

3 Operating profit

Operating profit is stated after charging:

	2010 £'000	2009 £'000
Amortisation:		
Goodwill	518	533
Depreciation:		
Tangible fixed assets, owned	3,343	3,369
Equity-settled share-based payments	7	353
Fees payable to the company's auditor for the audit of the company accounts	20	22
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries	46	40
Services relating to information technology	2	–
Operating lease costs:		
Land and buildings	1,142	1,038
Plant and equipment	<u>29</u>	<u>14</u>

4 Particulars of employees and directors

The average number of staff employed by the group during the financial year amounted to:

	2010	2009
	No	No
Operational	117	101
Selling, administration and distribution	153	162
	<u>270</u>	<u>263</u>

The aggregate payroll costs of the above were:

	2010	2009
	£'000	£'000
Wages and salaries	10,972	10,755
Social security costs	1,141	1,083
Other pension costs	499	457
	<u>12,612</u>	<u>12,295</u>

5 Directors

Remuneration in respect of directors was as follows:

	2010	2009
	£'000	£'000
Emoluments receivable	389	363
Value of company pension contributions to money purchase schemes	31	58
	<u>420</u>	<u>421</u>

Emoluments of highest paid director:

	2010	2009
	£'000	£'000
Total emoluments (excluding pension contributions)	206	210
Value of company pension contributions to money purchase schemes	18	15
	<u>224</u>	<u>225</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2010	2009
	No	No
Money purchase schemes	<u>2</u>	<u>2</u>

6 Interest payable and similar charges

	2010	2009
	£'000	£'000
Finance charges in respect of finance leases	10	8
Interest payable on shareholder loans	–	206
Other interest payable	76	137
	<u>86</u>	<u>351</u>

7 Taxation on ordinary activities

(a) Taxation	2010	2009
	£'000	£'000
Current tax:		
UK Corporation tax based on the results for the year at 28% (2009: 28%)	(95)	–
Taxation payable in respect of foreign subsidiary	–	(7)
Total current tax	<u>(95)</u>	<u>(7)</u>
Deferred tax:		
Origination and reversal of timing differences (note 14)	(372)	1,282
Tax on profit on ordinary activities	<u>(467)</u>	<u>1,275</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%).

	2010	2009
	£'000	£'000
Profit on ordinary activities before taxation	<u>3,904</u>	<u>2,293</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	1,093	642
Expenses not deductible for tax purposes	6	284
Income not chargeable for tax purposes	(83)	–
Additional deduction for R&D expenditure	(214)	–
Depreciation for the period in excess of capital allowances	(742)	(963)
Other timing differences	(101)	23
Overseas taxation	–	7
Difference due to lower tax rates in subsidiary companies	(6)	–
Goodwill amortisation	142	14
Total current tax	<u>95</u>	<u>7</u>

8 Profit attributable to members of the parent company

The parent company's profit for the year was £2,181,000 (2009: £370,000).

9 Intangible fixed assets

The group

	Goodwill on consolidation £'000	Purchased goodwill £'000	Total £'000
Cost			
At 1 January 2010 and 31 December 2010	<u>11,294</u>	<u>1,618</u>	<u>12,912</u>
Amortisation			
At 1 January 2010	4,024	1,618	5,642
Charge for the year	518	–	518
At 31 December 2010	<u>4,542</u>	<u>1,618</u>	<u>6,160</u>
Net book value			
At 31 December 2010	<u>6,752</u>	<u>–</u>	<u>6,752</u>
At 31 December 2009	<u>7,270</u>	<u>–</u>	<u>7,270</u>

The goodwill on consolidation relates to the acquisition of Uni World Communications Limited, Go Worldwide Communications Limited, Blue Spot Technologies Limited and Peach Amber Kft and represents the excess of the consideration over the fair value of the assets acquired.

The purchased goodwill represents the cost of acquiring the customer bases of three smaller re-sellers.

10 Tangible fixed assets

Group	Network assets £'000	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2010	33,508	6,499	786	42	40,835
Additions	889	1,687	132	–	2,708
At 31 December 2010	<u>34,397</u>	<u>8,186</u>	<u>918</u>	<u>42</u>	<u>43,543</u>
Depreciation					
At 1 January 2010	15,243	3,942	522	35	19,742
Charge for the year	2,031	1,193	117	2	3,343
At 31 December 2010	<u>17,274</u>	<u>5,135</u>	<u>639</u>	<u>37</u>	<u>23,085</u>
Net book value					
At 31 December 2010	<u>17,123</u>	<u>3,051</u>	<u>279</u>	<u>5</u>	<u>20,458</u>
At 31 December 2009	<u>18,265</u>	<u>2,557</u>	<u>264</u>	<u>7</u>	<u>21,093</u>

10 Tangible fixed assets (continued)

Company	Network assets £'000	Computer equipment £'000	Fixtures & fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2010	33,508	5,390	494	42	39,434
Additions	889	1,646	102	–	2,637
At 31 December 2010	<u>34,397</u>	<u>7,036</u>	<u>596</u>	<u>42</u>	<u>42,071</u>
Depreciation					
At 1 January 2010	15,243	2,994	300	35	18,572
Charge for the year	2,031	1,074	71	2	3,178
At 31 December 2010	<u>17,274</u>	<u>4,068</u>	<u>371</u>	<u>37</u>	<u>21,750</u>
Net book value					
At 31 December 2010	<u>17,123</u>	<u>2,968</u>	<u>225</u>	<u>5</u>	<u>20,321</u>
At 31 December 2009	<u>18,265</u>	<u>2,396</u>	<u>194</u>	<u>7</u>	<u>20,862</u>

11 Investments

The company	Shares in group undertakings £'000
Cost	
At 1 January 2010 and 31 December 2010	<u>10,767</u>
Net book value	
At 31 December 2010	<u>10,767</u>
At 31 December 2009	<u>10,767</u>

11 Investments (continued)

At 31 December 2010 the company held share capital of the following subsidiaries, all of which are registered in England and Wales with the exception of Peach Amber Kft which is registered in Hungary:

	Class of share capital	Proportion held by the parent company	Nature of business
Gamma Telecom Limited	Ordinary	100%	Telephony services
Gamma Metronet Limited	Ordinary	100%	Non-trading
Uni World Communications Limited	Ordinary	100%	Retail telephony services
Peach Amber Kft	Ordinary	100%	Software services

At 31 December 2010, Uni World Communications Limited held share capital of the following subsidiaries, all of which are registered in England and Wales:

	Class of share capital	Proportion held by the parent company	Nature of business
Uniworld Bureau Services Limited	Ordinary	100%	Dormant
Go Worldwide Communications Limited	Ordinary	100%	Dormant
Blue Spot Technologies Limited	Ordinary	100%	Dormant

12 Stocks

	The group		The company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Consumables	61	56	—	—
Work in progress	450	—	—	—
	<u>511</u>	<u>56</u>	<u>—</u>	<u>—</u>

13 Debtors

	The group		The company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Trade debtors	11,007	10,385	–	–
Other debtors	856	1,016	748	745
Prepayments and accrued income	9,929	9,215	3	4
Deferred tax (note 14)	910	1,282	466	515
	<u>22,702</u>	<u>21,898</u>	<u>1,217</u>	<u>1,264</u>

Included within the deferred tax asset for the group is an amount of £66,000 which is expected to be realised after more than one year (2009: £141,000). Included within the deferred tax asset for the company is an amount of £28,000 which is expected to be realised after more than one year (2009: £96,000).

14 Deferred taxation

The group's movement in the deferred taxation provision during the year was:

	The group		The company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Asset brought forward	1,282	–	515	–
Profit and loss account movement arising during the period (note 7)	(372)	1,282	(49)	515
Asset carried forward (note 13)	<u>910</u>	<u>1,282</u>	<u>466</u>	<u>515</u>

The deferred taxation asset consists of the tax effect of timing differences in respect of:

	The group		The company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Excess of taxation allowances over depreciation of fixed assets	517	601	466	515
Other timing differences	393	681	–	–
	<u>910</u>	<u>1,282</u>	<u>466</u>	<u>515</u>

The group has not recognised an additional deferred tax asset totalling £378,000 (2009: £490,000); the company has not recognised an additional deferred tax asset totalling £123,000 (2009: £210,000).

The deferred tax asset has arisen due to short term timing differences and capital allowances which lag behind the depreciation charged in the accounts. Given the profitability of the group, these differences are expected to reverse in the near term thereby reducing future tax charges and hence the asset has been recognised.

15 Creditors: amounts falling due within one year

	The group		The company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Loan	2,000	–	–	–
Trade creditors	5,025	8,117	2,663	5,364
Corporation tax	95	–	–	–
Taxation and social security	801	335	–	–
Invoice discounting facility	1,579	10,517	–	–
Other creditors	296	449	69	–
Accruals and deferred income	19,134	15,803	8,541	8,488
Amounts owed to group undertakings	–	–	8,136	9,232
Finance leases	5	10	5	10
	<u>28,935</u>	<u>35,231</u>	<u>19,414</u>	<u>23,094</u>

The invoice discounting facility is secured over the book debts of the group excluding Uni World Communications Limited and is repayable in full with a three month notice period by either party. The loan is secured over the fixed assets held by the Company.

Amounts due under finance leases are secured on the assets to which they relate.

16 Creditors: amounts falling due after more than one year

	The group		The company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Loan	4,000	–	–	–
Finance leases	–	4	–	4
Other creditors	6,717	6,717	6,717	6,717
	<u>10,717</u>	<u>6,721</u>	<u>6,717</u>	<u>6,721</u>

The loan is secured over the fixed assets held by the Company. Amounts due under finance leases are secured on the assets to which they relate.

17 Provisions for liabilities and charges

	The group		The company	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Balance at 1 January	229	–	–	–
Profit and loss charge in the year	345	229	–	–
Balance at 31 December	<u>574</u>	<u>229</u>	<u>–</u>	<u>–</u>

Provisions are created for dilapidations in respect of property leases where the building (which is the subject of the lease) has to be returned to the landlord in a defined condition. Once the stage of the lease has been reached at which a reliable estimate of costs can be made, a provision is built up over the remaining length of the lease.

18 Borrowings

Borrowings are repayable as follows:

	The group and the company	
	2010	2009
	£'000	£'000
Within one year	2,005	10
After one and within two years	2,000	4
After two and within five years	2,000	–
	<u>6,005</u>	<u>14</u>

19 Commitments under operating leases

At 31 December 2010 the group had annual commitments under non-cancellable operating leases as set out below.

	2010		2009	
	Land and buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
In one year or less	124	–	174	27
Between one and five years	100	54	265	18
In five years or more	325	–	415	–
	<u>549</u>	<u>54</u>	<u>854</u>	<u>45</u>

20 Share capital

Authorised share capital:

	2010	2009
	£'000	£'000
50,000,000 Ordinary shares of 1p each	<u>500</u>	<u>500</u>

Allotted, called up and fully paid:

	2010		2009	
	No	£'000	No	£'000
Ordinary shares of 1p each	<u>22,540,910</u>	<u>225</u>	<u>22,540,910</u>	<u>225</u>

20 Share capital (continued)

Total share options in issue in the year were as follows:

The group has granted the following options over Ordinary shares of £0.01 as follows:

Date of grant	Start of year/ Granted in year	Modified/ lapsed	End of year	Exercise Price	Notes
17 December 2002	25,000	–	25,000	£3.25	(a)
29 August 2003	5,473	(351)	5,122	£2.50	(b)
23 December 2004	25,000	(25,000)	–	£3.00	(a)
6 September 2005	12,000	–	12,000	£2.50	(b)
31 May 2007	13,000	(13,000)	–	£2.00	(b)
2 October 2008	78,000	(78,000)	–	£2.00	(b)
8 July 2009	1,996,027	–	1,996,027	£1.00	(b)
2 September 2009	187,500	(150,000)	37,500	£1.00	(b)
10 March 2010	141,351	–	141,351	£1.00	(b)
7 July 2010	25,000	–	25,000	£1.00	(b)

All options lapse ten years after the date on which they were issued.

Notes:

- (a) Vesting period is equally over three years
- (b) Vesting period starts on date of issue

21 Share-based payments

Share options subject to equity-settled share-based payments are set out within note 20.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

Application of the fair value measurement results in a charge to operating expenses for the year ended 31 December 2010 of £7,000 (2009: £353,000) within the subsidiary company, Gamma Telecom Limited. The charge has been made to the profit and loss account of the subsidiary as the employees' services are provided in that company.

Fair value is measured using the binomial pricing model and includes the information set out in the table below. The expected life used in the model assumes that vesting conditions will be met and all options will be exercised at the earliest opportunity.

	2010	2009
Share price at grant date (pence)	106-125	106
Exercise price (pence)	100	100
Expected volatility	29%	30-32%
Risk free rate	2.05-2.82%	2.23-2.60%
Expected dividend yield	0.0%	0.0 %

22 Reserves

Group	Share premium account £'000	Share option reserve £'000	Foreign exchange reserve £'000	Profit and loss account £'000
At 1 January 2010	26,397	730	7	(10,243)
Profit for the year	–	–	–	3,437
Recognition of equity-settled share-based payments in the year	–	7	–	–
Loss on retranslation of foreign subsidiary	–	–	14	–
At 31 December 2010	<u>26,397</u>	<u>737</u>	<u>21</u>	<u>(6,806)</u>

Company	Share premium account £'000	Profit and loss account £'000
At 1 January 2010	26,397	(22,629)
Profit for the year	–	2,181
At 31 December 2010	<u>26,397</u>	<u>(20,448)</u>

23 Reconciliation of shareholders' funds and movements on reserves

The group	2010 £'000	2009 £'000
Profit for the financial year	3,437	3,568
Foreign exchange movement	14	(6)
Share-based payment reserve	7	353
Net increase in shareholders' equity funds	<u>3,458</u>	<u>3,915</u>
Opening shareholders' funds	17,116	13,201
Closing shareholders' funds	<u>20,574</u>	<u>17,116</u>

24 Notes to the statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2010 £'000	2009 £'000
Operating profit	3,989	2,638
Depreciation and amortisation	3,861	3,902
Profit on sale of fixed assets	–	–
(Increase)/decrease in stocks	(455)	16
(Increase)/decrease in debtors	(1,176)	3,687
Increase/(decrease) in creditors	552	(3,501)
Increase in provisions	345	229
Equity-settled share based payments in the year	7	353
Loss/(gain) on retranslation of foreign subsidiary	14	(6)
Net cash inflow from operating activities	<u>7,137</u>	<u>7,318</u>

Returns on investments and servicing of finance

	2010 £'000	2009 £'000
Interest received	1	6
Interest paid	(86)	(351)
Net cash outflow from returns on investments and servicing of finance	<u>(85)</u>	<u>(345)</u>

Taxation

	2010 £'000	2009 £'000
Taxation	<u>–</u>	<u>(7)</u>

Capital expenditure and financial investment

	2010 £'000	2009 £'000
Payments to acquire tangible fixed assets	(2,708)	(2,846)
Receipts from sale of fixed assets	–	–
Net cash outflow for capital expenditure and financial investment	<u>(2,708)</u>	<u>(2,846)</u>

24 Notes to the statement of cash flows (continued)

Financing

	2010 £'000	2009 £'000
Overdraft repaid in year	–	(3)
Invoice discounting facility repaid in the year	(8,938)	(1,134)
Loans repaid in the year	–	(3,000)
Receipts from new loan	6,000	–
Repayment of amounts due under finance leases	(9)	(299)
Net cash outflow from financing	<u>(2,947)</u>	<u>(4,436)</u>

Reconciliation of net cash flow to movement in net funds/(debt)

	2010 £'000	2009 £'000
Increase/(decrease) in cash in the year	1,397	(316)
Cash outflow from decrease in debt	2,947	4,436
Change in net funds from cash flows	<u>4,344</u>	<u>4,120</u>
Net debt at 1 January	(1,551)	(5,671)
Net funds/(debt) at 31 December	<u>2,793</u>	<u>(1,551)</u>

Analysis of changes in net funds/(debt)

	At 1 Jan 2010 £'000	Net Cash flows £'000	At 31 Dec 2010 £'000
Net cash:			
Cash in hand and at bank	8,980	1,397	10,377
Debt due within one year:			
Invoice discounting facility	(10,517)	8,938	(1,579)
Finance leases	(10)	5	(5)
Other loan	–	(2,000)	(2,000)
	<u>(10,527)</u>	<u>6,943</u>	<u>(3,584)</u>
Debt due after one year:			
Finance leases	(4)	4	–
Other loan	–	(4,000)	(4,000)
	<u>(4)</u>	<u>(3,996)</u>	<u>(4,000)</u>
Net debt	<u>(1,551)</u>	<u>4,344</u>	<u>2,793</u>

25 Contingent liabilities

Neither the group nor the company had any contingent liabilities at 31 December 2010 or at 31 December 2009.

26 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 2010 or at 31 December 2009.

27 Pension costs

The group operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are administered by trustees in a fund independent from those of the group. The pension costs charged in the year amounted to £499,000 (2009: £457,000).